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PUSHING BACK THE FRONTIERS

Presidential address delivered at Forty-fourth Annual Meeting of the American Economic Association, Washington, D.C., December 29, 1931.

The early colonists settled along the Atlantic seaboard, but after the Revolution they began to push westward across the Appalachian mountains. The physical frontier had disappeared by 1890, but there were soon disclosed new frontiers of industry, finance, and commerce, as well as cultural frontiers.

Great progress has been made in the physical sciences and in technology, yet even in these fields there are many unsettled questions which remain as a challenge to man's power.

Economic science has achieved great progress, and has made constructive contributions to human welfare, but the unsolved problems of today constitute another frontier. The movement is now upward rather than outward and is raising cultural as well as economic levels.

In 1763 the British government issued the Royal Proclamation which forbade English colonists to settle west of the Allegheny mountains except by special permission, a prohibition which stirred the ill will of men of Massachusetts and Virginia alike and contributed to the creation of the growing discontent which finally culminated in the Revolution. But even before that event the paper frontier thus set up had been crossed by roving individuals and by bands of adventurous men who settled in the forbidden territory. And after the treaty of peace between Great Britain and the new republic, no obstacle prevented the westward movement except physical barriers and the resistance of the Indians. Neither of these was able to stem the resistless surge of restless settlers as they pressed on into the valley of the Ohio and the land to the south. The fortunate purchase of the Louisiana territory opened up new vistas and led to the later wresting of coveted California from a weaker neighbor. Now the only limit to the westward movement was the Pacific Ocean, and within seventy-five years from the Revolution, this had been reached.

It is perhaps incorrect to speak of this process of filling up the land with settlers as pushing back *the* frontier, for in the changing kaleidoscopic picture there were many frontiers. There was the trappers' and fur traders' frontier, far beyond the fixed habitations of men, a fluctuating and retreating line which followed the disappearing fur-bearing animals into the northwest and southwest, and then leaped the intervening distances to the far west. The ranchers' frontier existed first along the western fringe of the early colonies, but was pressed ever far-

ther west by the home-making husbandmen who fenced in the range and plowed up the pasture land. The picturesqueness of this phase of frontier life has given to the cowboy an importance in story and literature which he never possessed in real life. Today there remain only a few faded remnants in out-of-the-way places of the fast-riding ranchers.

The miners' frontier on the whole moved westward, but it knew no law and jumped from one new mining district to another, zigzagging in drunken fashion from Pennsylvania coal and iron to Missouri lead and to Michigan copper, taking a flying leap to California when gold was discovered there, but jumping back to Pennsylvania to exploit the petroleum deposits. Then the precious metals called again to Colorado and Nevada, and the much more useful iron beckoned to Minnesota. Such a frontier cannot be neatly mapped and charted, but it had such distinctive features that the mining camps have given flavor and picturesqueness to our literature and geographical nomenclature.

The true westward movement was carried on by the farmers. It was they who filled up the open spaces, took over the land, built homes and other improvements, and steadily pushed back the border of settlement. The rapidity and scope of this movement were unprecedented in history. In the single decade 1870-1880 there were added to the cultivated area of the United States over 190,000,000 acres, or a territory equal in extent to Great Britain and France combined, while in the following twenty-year period 1880-1900 the farm area was increased by 305,000,000 acres. This was equal in extent to the rest of Europe, excepting Spain.

In 1890 the Superintendent of the Census announced that the frontier had disappeared. Defining the frontier as an area where the population was less than two per square mile, he presented figures in the census of that year to show that the population was everywhere more dense than that minimum, and therefore concluded that the land was now solidly settled from the Atlantic to the Pacific Ocean, and that the last frontier had been eliminated from our history. This was a statement of profound significance, for it presaged the end of free land, the lure of which had dotted the western plains with homesteaded farms; and it indicated that the great task of the American people—that of subduing a continent to the uses of man—was now completed.

But was the Superintendent of the Census correct in claiming that the frontier had disappeared?

Whatever may have been true of the physical advance of the population and the appropriation and exploitation of the public domain, it is clear to us today as we look back to the decade of the 1890's that in many respects and in many branches of human achievement the frontier had only been visioned, but not conquered. This was the decade of bitter debate and serious struggle over the establishment of the gold standard,

when the pioneers of sound money and good banking began through two decades to push their toilsome way to the frontiers of the federal reserve system. New frontiers of large-scale manufacturing, of mechanized industry, of more efficient mass production for the ever enlarging markets were glimpsed at this time; and far-sighted leaders began the reorganization of industry which led them far beyond the former bounds. A new horizon of foreign trade was opened up and the expansion of our commerce was limited only by the failure of world demand. Somewhat more tardily, the next decade saw new frontiers pushed out in intensive farming, in conservation, and in other phases of the more scientific development of our resources.

But still other frontiers remained, less tangible and material, which in the early nineties were only faintly seen afar off. The Philadelphia Exposition of 1876 revealed to the American people for the first time on any large scale new values of art in its various forms, higher standards of architecture, and a better appreciation of beauty. And, although the world smiled at midwestern pretensions to culture, Chicago pushed forward the frontiers of artistic, musical, and literary appreciation and production both geographically and spiritually by her World's Fair in 1893. Since then the borders of this province have been extended rapidly and steadily westward until the frontier has disappeared. It is difficult to estimate achievement in this sphere, for no unit of measurement exists; but, if we adopt the yardstick of the Superintendent of the Census, we may fairly assert that today probably no place can be found in the United States whose artistic, literary, or musical population is less than two to the square mile.

This process of pushing out the frontiers of material achievement inevitably affected the estimation in which some cultural values were held. Economic success was rated higher than classical learning, and the skill of the artisan counted for more than that of the artist. But who shall say what scale of values should obtain on the frontier with more authority than the frontiersman himself? Gradually, however, the physical frontier was overcome; and, with material success assured, the pioneer hungered for some of the less tangible goods he had left behind. The transformation of the raw prairie into seemly homes and beautiful cities was not accomplished in a decade or even in a generation. Many a sprawling untidy western city today attests the difficulty of such change. And yet in time roads and railways, mail route and telegraphs and telephones, court-houses and parks, motion picture palaces and chain stores, and all the other accompaniments of American civilization have been set up along Main Street.

Some there always were among the early pioneers who appreciated the value of higher education and who were not content merely to trans-

form Main Street into Broadway. These men were ready to make sacrifices to establish schools and churches and to set up the symbols of a higher culture. The democratic co-educational state university, a typically western institution, was devised by the pioneers as an answer to the demand for opportunities for general higher education. Thus the frontier of learning closely followed, and was all but coterminous with, the physical frontiers of settlement and material success. Its conquest was marked by the establishment of schools and colleges, of libraries, art museums, and conservatories of music, beautiful homes and well-planned cities, all of which may be accepted as manifestations of civilization.

Human advance is never even along all lines; it moves more rapidly in certain directions and more slowly in others. In some aspects progress consists in conquering nature, in appropriating her fruits, and in harnessing natural forces to our needs; but in other aspects it means adaptation to the environment. The westward movement partook of both. The need of the times was on the whole for men of action, and for the tasks to be performed strong men were bred. At other times in the world's history, other needs and ideals have been paramount, and society has responded in kind. In the twelfth century man wished to be a crusader; in the sixteenth a buccaneer; in the eighteenth an empire builder; in the nineteenth an industrial leader; and in the twentieth a scientist.

Although we have in 300 years pushed back somewhat the frontiers of agriculture and industry, of culture and learning, we have only comparatively recently essayed the task of scientific adventuring. And in spite of splendid achievements in the fields of the physical and biological sciences, we have probably—if the picture of our westward movement may be applied—scarcely done more than cross the Appalachian Mountains. If we consult the leaders in these sciences, we learn indeed of significant discoveries and great progress, but also of major problems still awaiting solution. Let me submit a few random samples from some of the important sciences.

It is a trite observation to remark that our present industrial advance has been due primarily to technological improvements, and that society today depends as never before upon the application of science to industry. Anyone who has attempted to follow the recent epoch-making contributions, especially of the physical sciences, cannot but be deeply impressed by the enormous range and advance of scientific invention and discovery within the last five decades. When Bell and Edison, the Wright brothers, Pupin and Millikan first looked out upon the field of scientific endeavor it must have seemed to them that they stood on the verge of the frontier. But owing to the work of these and other men that border has been steadily extended. The heavens have

been immeasurably widened; remote stars have been descried, measured, weighed, and analyzed. The earth has shrunk in size and importance as it has been assigned a relatively inconspicuous place in a greater cosmos. New elements have been discovered, and the forces of nature have been captured and harnessed to man's uses. But we remain still on the threshold of the universe.

A generation or two ago the physicist was one of the most cocksure of our scientific colleagues; today he is the most humble. New vistas of knowledge have been opened up to him, on the frontier of which he now stands. He has learned to utilize the force of electricity, but remains perplexed before the movements of the electrons in their courses within the atom. In the field of metallurgy he has discovered, if not new metals, at least new combinations that have given the lightness with strength which make possible the ever-longer flights of airplanes, the hardness that is necessary for an automobile crankshaft, and the brightness which is found in the trimmings of even the cheapest era. And yet in this very domain, which he had apparently exploited so thoroughly, the metallurgist and engineer finds himself on the frontier of new scientific knowledge. "What is cohesion?" asked Sir Oliver Lodge. "Why, when I pick up one end of my walking stick, does the other end come up too?" The honest physicist answers that he does not know. He may talk about attraction among atoms, but that is merely giving a name to the unknown. The essential nature of cohesion is still a matter of speculation.

Our material civilization today is based primarily upon the utilization of power, most of which is derived from the stores of coal and oil which are rapidly being depleted if not exhausted. But at almost every stage the processes of production and utilization are still woefully wasteful. In the present state of the exploitation of petroleum about three-fourths of the oil remains in the soil. The recovery of the balance is a standing challenge to science. In the case of coal the amount recovered varies according to conditions; in the bituminous mines of Illinois only about half of the coal is brought to the surface. Even more wasteful is the utilization of oil and coal for power or heating. In spite of the continuous improvement of the steam engine, or its replacement by the turbine or gas motor, the ominous fact still confronts us that the greater part of the energy derived from the combustion of the coal and oil is wasted. The science of getting the maximum out of a pound of coal is still in its infancy. It is true that great improvements have been made since the World War, but the tardiness of this advance should make us apologetic rather than proud. Man has become acquainted with enormous natural forces, but he has not as yet contrived control of them nor reached an adequate notion of their wise use.

Although man has practised agriculture and lived on the fruits of the earth for hundreds of thousands of years, we do not yet understand in detail the process of the growth of chloroplast, that part of the plant which transforms the energy of sunlight into the potential energy of carbon compounds. And yet if chloroplast, the green pigment in plants, should cease to function, all plant and animal life would soon end upon the earth. The so-called virus diseases or mosaics of plants constitute a baffling mystery which plant pathologists have for a generation tried in vain to penetrate.

In 1898 Sir William Crookes predicted that, at the then rate of increase of world population, before 1931 the nations would be faced with a scarcity of wheat. And yet today we have a surplus. How can the error of this eminent scientist be explained? He based his prediction on the scarcity of nitrogen for fertilizer; but this need has been so successfully met by the fixation of atmospheric nitrogen that there is now danger of an overproduction of fixed nitrogen as well as of wheat. And yet, in spite of this brilliant achievement, the age-old process by which plant bacteria "fix" nitrogen in the soil is not known.

Almost coincidentally with the beginning of the westward movement in America, economics began its career as a science. But its pioneering days were soon over. As the great industrial and social changes introduced by the Industrial Revolution became consolidated and crystallized, so the theory which interpreted them became systematized and fixed. Basing themselves upon insufficient economic history and unproven psychological assumptions the classical economists made a premature attempt to formulate generalizations and "laws," and claimed for their science a finality which left no—or few—frontiers. And a science without frontiers cannot advance far. But even from the beginning there were bold spirits who pioneered in the domain of economic theory, the while their compatriots pushed the physical frontier across the middle west of the United States and essayed new experiments in practical activities and in public policy.

The last advance has come within a decade and is led by those who, under the influence of scientific method, insist that the science of economics must be freed from ideas that cannot be tested and proved. They saw moreover that technology was remaking the material world, and were dissatisfied with the aloofness and abstractions of prevailing economic theory. This they urged should deal not merely with wealth, but with human behavior; and, since the behavior of human beings varies in response to the differing stimuli of changing environments, they declared that the enormous changes in our economic and social environment must be taken into account. The World War called many economists into services in which they attempted to translate their theories into public

policies. New economic experiments and inventions were made, some of which constituted real pioneering in the field of human welfare. The new schools of economists began to insist that their science be not treated *in vacuo*, but that it meet the present needs of the factory, the market place, and the home. The brilliant work of the physicists, the chemists, and the biologists in conquering the forces of nature compelled the economists and their allies to face the still more vital problems of social engineering.

Here is a new frontier. Like every other frontier it was at once a barrier and a challenge. The general and ready acceptance by the world of the benefits of science, and the increasing reliance by men of affairs upon the technologists, inclined them to accept the guidance of those among the economists or their followers who proclaimed themselves leaders. Armed with statistical charts and price curves these announced a new era of prosperity, but the event proved that the advance had not been along scientific lines. Economic science may be richer by the experience of the past three years, but the lesson was dearly bought.

In comparison with the definite and positive achievements of the physical and biological sciences the contributions of the social sciences to human wealth and welfare are frequently belittled. But such a judgment errs in taking too short a view. It was surely a daring step in social experimentation for a generation trained in mercantilist theory to rely upon free enterprise and competition as guides in the economic sphere. And the industrial system created during the nineteenth century has on the whole served the people well, though sometimes the engineer veers in his course or seems to lose control of the engine. Credit in full measure may be claimed for much of the economic progress already achieved, such as the great increase in productivity, the improved standard of living of the mass of the people, shorter hours, the lessened strain of manual labor, and the increasing emphasis upon the worth of man and of his welfare in the economic scheme.

In the complex society of today, moreover, no single science or group of sciences can claim a monopoly of method or of human knowledge. Technology and economics, biology and sociology, engineering and statistics are interrelated and interdependent. Technological improvements call for social adjustments, but the technical and engineering enterprises in turn wait for economic wealth. Advance in one conditions progress in the others. Economists may fairly claim that their contributions have been significant and essential. Economic theory has, on the whole, run ahead of business administration; there has been a lag between the discovery of truth and its application by those in control of industry. But neither physical nor social scientists can rest content with the progress already made, which, in comparison with the unplumbed possibilities of

the future, seems small. If the advance made is to be held and the promised peaks of prosperity are to be permanently possessed, further pioneering is called for.

What then are the unsolved economic problems which constitute the frontier of our science? It has been said that no two economists agree on anything, and perhaps no one here will accept this list as complete or satisfactory. But in this time of industrial depression there will be no dissent if the fluctuations of the business cycle and recurring unemployment be named as the most important and urgent problem. Nor would there probably be serious dispute if the conviction were expressed that a rational system of economics would endeavor to control such obvious economic irrationalities as the spending of money on reclamation in spite of agricultural overproduction, the continued waste of economic resources, unbalanced and misdirected production, wasteful marketing, foolish spending under pressure, inequitable distribution of the national income, the toleration of preventable disease and needless accidents, the breeding of the unfit and the degenerate, the selection of ignorant or corrupt officials for public service, the cultivation of national and international antipathies, and the inexcusable folly of competitive armaments and war.

The list of unsettled questions might be lengthy, but it is not upon this note that I wish to conclude. An efficient material civilization has been developed by which man has lifted himself higher above the level of savages than has ever been done before. The physical plant which our engineers have built up is probably adequate to our present needs. After the conquest of the material world new domains of ethical, intellectual, and artistic achievement lie open before us, which can only be attained by the great mass of the people, as becomes a democracy, when they have been freed from drudgery and dulling manual toil. Aristotle once said that if the shuttle would weave by itself and the plectrum play on the lyre without hands, then the chief workmen would not need helpers nor civilization slaves. The conditions laid down by Aristotle have in effect been realized and as a result not only is modern industry carried on by free men, but abundant leisure is assured for the development of finer manifestations of religion, beauty, appreciation, and culture.

The work of pioneering has carried us from the Atlantic to the Pacific coast, from a hard struggle with nature to a high level of material comfort, but the task is not yet completed. Denied further lateral expansion, the pioneering spirit is moving vertically and is raising our material and cultural standards to higher levels. The frontier is thus pushed upward rather than outward. On each loftier plane new boundaries offer fresh challenge; the frontier recedes as we progress and stimulates to renewed efforts. The boundaries of our science are not fixed; they reach up to

the heavens. Today the most critical dilemma of modern industrialism is how to acquire a greater degree of control over our economic system. We must also effect a synthesis of usefulness and beauty, of learning and life, of material achievement and art, of economics and ethics. Life is after all one organic whole, and technology and culture are not and should not be distinct. Mere material achievement is not a final goal. We must provide a juster social organization, a civilization more appreciative of and better able to use leisure, art, literature, the finer things of the spirit, and higher ethical ideals.

E. L. Bogart

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AN APPRAISAL OF INSTITUTIONAL ECONOMICS

Paper presented at Round Table Conference, December 29, 1931, at forty-fourth annual meeting of the American Economic Association, Washington, D.C.

Veblen's attempt to make of economics an evolutionary science has been little developed by other economists. The differentiating characteristics of an institutional economics are hard to find; but some economists have oriented their thinking by a postulated institutional prescription of human conduct in an evolving society, in association with an attack upon the ideology of systematic economic theory. The central concern of this group for economic theory has, however, been in making it relevant to problems of social control.

Descriptive studies have constituted the principal recent additions to economic knowledge. Few if any of these can be regarded as integral parts of a differentiated institutional economics. Nor can one find peculiarly institutional contributions to the solution of problems of economic control.

The supposed existence of a distinguishable body of economic knowledge or theory properly to be called institutional is an intellectual fiction.

It will doubtless be agreed that the extensive introduction of the word "institution" and its derivatives into economic terminology is an outcome of the work of Veblen. Perhaps the crucial question which Veblen asked was, "Why is economics not an evolutionary science?" The attempted answer included, negatively, an attack upon the scientific validity of systematic economic theory as currently expounded, and, constructively, the outlines of an evolutionary and institutional explanation of economic behavior. The important general purport of his writing was that the character of this behavior was proximately prescribed by social institutions, with ultimate reference to human aptitudes and environmental circumstances. Had the Veblenian attempt to interpret current economic practice and activity in this sense given rise to a succession of followers to carry it on, some definitive and substantive meaning might have come to attach to the idea of "institutional economics." Its place in the science of economics would have been determined by the character of the procedure developed for analyzing and interpreting, genetically, the socio-economic phenomena of modern life.

No one, however, has been inspired to undertake the task seriously or extensively, probably for the sufficient reason that no one has known how to reduce the task to definable terms or manageable proportions. There is, then, some point in the contention of Mr. Dorfman, Veblen's biographer, that Veblen alone may be properly classified under the category of institutional economics. Were one to assent fully, the task undertaken in this paper would be confined to an appraisal of Veblen's contribution to economic thought. One is, however, faced with such inescapable objects as Professor Mitchell, Professor Hamilton, Professor Commons, and others who call themselves, or are called by others, institutional economists. With the possible exception of Professor Commons, it is my judgment that all of them are, directly or indirectly,

legatees of Veblen's thinking, and that it is this intellectual relationship which has created for them their somewhat vague bond of intellectual kinship. On the other hand, they have expressed severally, and at times partially agreed upon, statements or principles not directly related to the Veblenian scheme of thought.[1]

The first derivative phrase of "institution" to attain wide circulation was the title of Professor Hamilton's paper before this Association thirteen years ago, "The Institutional Approach to Economic Theory." A little later "institutional economics" became a current phrase. Then one began to hear of an "institutional school" and "institutionalism." A generic term presumably serves the purpose of epitomizing or distilling the elements common to diverse things. In the course of my studies in recent years it has been a matter of interest to attempt to discover what is connoted by the generic term institutional as applied to economics. Its meaning or meanings have proved highly elusive, and I have nothing to add to what I have already written on the subject in various places, especially in the general article on economics in the *Encyclopædia of the Social Sciences.* The view there expressed was somewhat as follows: that certain economists orient their thinking, with mental reservations, according to Veblen's account of the nature of institutional prescription of conduct in an evolving society; that this orientation causes them to deny the possibility of describing the economic system in the quasi-mechanistic terminology of equilibrium which is imbedded in systematic economic theory; and that beyond these points of orientation and negation there is no common element in their work by which they may be generically classified.

This exploration into the meaning of a word may seem remote from the topic of appraisal, but one may reasonably suppose that it is impossible to appraise in ignorance of the subject to be appraised. It will be my assumption from this point forward that *the institutional economics under discussion is a body of organized data, analytical method, thought, and generalized knowledge which would not exist but for the particular orientation described above, and which has some necessary organic relationship to that orientation.*

It will no doubt be at once objected that this definition is too narrow, and that a great volume of writing exists, not to be so classified, which nevertheless may be appropriately described as "institutional." I wholly agree, whether you refer me to Adam Smith, J. S. Mill, Richard Jones, Karl Marx, Alfred Marshall, or Tom, Dick, and Harry. If one means by institutional economics a body of writing describing economic institutions, or analyzing the operating processes of economic institu-

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tions, then every economist without exception is an institutional economist. But if one wishes to differentiate a certain body of economic writing under that denomination, it is necessary to state the criteria of differentiation. I place no great store by the criteria I have stated, and preserve an open mind toward any others. I merely record my personal inability to find them. Nor is this inability related to lack of effort. My correspondence and my reading have reached every well-known economist of supposed institutional proclivities, and they divide roughly into two classes, those who refuse to define institutional economics, and those whose definitions disagree. This state of affairs lends point to Professor Commons's statement that "no one has gone at the fundamental concepts upon which an institutional school should be constructed."

To go back to that historic occasion of thirteen years ago, Professor Hamilton began with the crucial negation that the older economic theory embodies an unacceptable conception of the nature of the economic order as a mechanism, thus preventing us from seeing economic behavior as it really is. He insisted that "the only way to the right sort of theory" is through a conception of a growing, developing order seen in our customs and conventions, or arrangements. His prescription for theory was that it must consist in a generalized description of the economic system, providing a framework wherein may be placed the results of special investigation in all fields of economic relationship. The primary quality of economic theory must be its relevancy to the problem of control; and the necessity for unity, descriptive adequacy, and psychological accuracy is relative to that requirement. Professor J. M. Clark, on the same occasion, with important reservations or differences of approach, similarly stressed the necessity of an adequate descriptive framework and of a theoretical structure primarily adapted to dealing with problems of control. On the same occasion Mr. Walter Stewart concurred in the idea of reformulating the problems of economic theory by emphasis upon "neglected" institutions to result, from coördinating special studies, in "a coherent body of theory, organized around the central problem of control." He added a plea for "quantitative study of economic institutions" to save institutional theory from "unverifiable hypotheses and vague conclusions." Elsewhere Professor Mitchell has expressed substantially similar ideas.

I submit, then, not as proved by these brief citations but as indicated in the sources from which they were taken, that the general influence of a number of persons regarded as institutional economists has been of substantially the following sort: (a) an emphasis upon the phenomena of change; (b) a negation of systematic theory by reason of its erroneous ideology and of its irrelevance to problems of control; (c) an

insistence upon relevance to control problems as the primary test of economic theory; (d) an advocacy of extensive descriptive work, whether quantitative or otherwise; (e) an indifference to questions of method, except as related to specific researches; (f) an insistence upon the relevancy of psychological theory; and (g) a distant hope that economic knowledge collected by these lights would lead eventually to some integrated restatement of economic theory. The above catalogue is not to be regarded as either exhaustive or accurate, being merely a personal attempt to summarize the nature of the influence of a group of economists in a collective way.

It now becomes necessary for me to make some generalizations by way of attempting to classify recent economic writing with reference to my earlier criteria of institutional economics. Needless to say, my acquaintance with the vast monographic literature of economic research is partial and smattering. With the audacity of relative ignorance I shall, however, denote the bulk of it as descriptive. It deals, in literary form, with banking, labor, public utilities, corporations, markets, particular industries, and so on, under an endless variety of forms. Whatever the form, some analysis is implied, initially in the arrangement of material, along the way in displaying the working processes of going concerns, and at the end by way of attempted generalization from accumulated data. Or it deals, quantitatively, with price series, physical production, employment, etc., analysis again being implied as associated with description.

If to this material one apply only my first criterion of institutional economics, the dependence of its existence upon the evolutionary orientation, a substantial minor fraction will meet the test. Some of the studies are couched in a language or follow a plan which would be different had Veblen not lived, or had the attempt not been made to apply an evolutionary ideology to economic analysis. Some of them would never have been made but for the same influence. Everyone can cite instances where the negation of systematic economic theory has deflected economists into new paths. Nor, regardless of the nature of their work, can it be denied that many economists, if not most, do orient their thinking with reference to an evolutionary social process. One may not discount the intellectual influence of the evolutionary idea, or of Veblen and Cooley and others who have given it wider currency in economic thought.

When, however, one applies the second criterion, an organic relation to the evolutionary orientation, I venture to suggest that only a tiny fraction of this accumulated knowledge will meet the test. I cannot, for example, think of any quantitative study that is so related. Nor is it easy to think of any others. Hoxie's studies in labor organization might possibly be suggested. It may readily be admitted that many, perhaps

most, of these studies describe parts of the economic system in a process of growth, as for example studies of particular industries, or in a process of change, as in price-series. But was there ever a time when economists did not engage in such studies? Did Jevons's study of the coal industry and his statistical studies, or Marshall's studies of co-operation and industrial combination make of them institutional economists? If so, years of theoretical controversy have been pointless. If not, the latter must be defined by reference to some differentiating criteria such as were earlier suggested. My statement is merely that the bulk of descriptive writing is essentially related to no such scheme of thought. It constitutes a highly valuable contribution to knowledge, which can be assigned to no school of economic thought. It is the result of the labor of economists of various schools of thought, or of none. And it is not to the institutional orientation that we owe its bulk. It is to the times in which we live.

If one turns to the field of economic problems, to the areas where problems of control are actively at issue, it is equally difficult to discover studies which conform to my second criterion of institutional economics. Such studies have been made indifferently by economists of every theoretical color. I know of not a one that I should classify as peculiarly and essentially institutional. Professor Hamilton's study of the coal industry has been called a triumph of institutional economics. It is, of course, in the wider sense institutional, but in no *differentiating* sense, except that it was written by Professor Hamilton, who is, it is said, an institutionalist, and that it contains a negation of the adequacy of competition to create satisfactorily adjustments in the coal industry. When one surveys our recent or current problems, in the fields of agriculture, international debts, business inflation and depression, taxation, transportation, where and of what sort is the peculiarly institutional contribution to their solution? I cannot find it. Indeed, in the discussion of such problems, in so far as they are immediate and not remote, the very language of discussion avoids the organic analogy and runs in terms of the mechanism of controlled change. It may be said that the mechanism of controlled change is a different idea from the self-regulating mechanism of perfect markets. This is of course true, but when one wishes to analyze the probable effects of changing the tariff, levying a tax, raising the discount rate, subsidizing the farmer, repealing the Sherman anti-trust act, raising railroad rates, or inflating the currency, does one bother about an evolutionary hypothesis? May one not suggest that in the analysis of all such problems, one commonly does and commonly must adopt methods devised and follow routes charted in the benighted days of mechanistic thinking?

I suggest that the problems of control which arise are relatively in-

dependent of the language in which economic theory is clothed, that the economist's contribution is ordered knowledge and analysis of alternative policies, and that solutions lie among the arts of statesmanship. I do not deny that a widely held social philosophy may reflect itself in the very terms of ordered knowledge. But I fail to see wherein the language of the evolutionary process is having or is likely to have any substantial effect upon either the knowledge or the analysis relevant to the solution of our economic problems.

In one more sphere must I register my inability to discover much content to an institutional economics, in the interpretation of current economic organization and behavior by reference to our cultural past. The work of Professor Commons is the sole important example I can muster. Not but that everyone recognizes the dependence of the present upon the past. No one denies it, or would think of explaining our modes of conduct without reference to it. But the task of developing it as a part of economic literature or theory faces a void both of language and of method, a void commonly jumped by the "historical introduction."

Having gone so far, and compelled by limitations of time to forego expansion or elaboration, I may as well bluntly state my opinion that an institutional economics, differentiated from other economics by discoverable criteria, is largely an intellectual fiction, substantially devoid of content. Fifteen years ago it was a faith, and to this faith I assign important historical consequences. The faith was that an adequate organon of economic thought could be achieved by the accumulation of data and analysis of them in terms of an evolutionary process. It included a negation of the picture of economic relationships imbedded in systematic economic theory. The negation extended not only to the ideology, but partially to the methods used in formulating that body of theory. The constructive faith supported the negation, but both were important. They caused the whole structure of economic theory to be subjected to searching and critical scrutiny. Time does not permit me to develop what seems to me to have happened to systematic economic theory. It no longer furnishes an economic philosophy. Its more comprehensive generalizations are in disrepute, or else are labelled with proper warning of their partial or hypothetical character. Its essential service of furnishing paths through the jungles of data and tools of thought for the labors of analysis has been made sufficiently plain to all except the blind. Its waning importance as a picture of the economic order is plain. Its incompleteness as to methods and generalized results is not open to question. But, since systematic theory is not my topic, it may be merely said that its reduction to its minimum terms of intellectual and analytical usefulness has demonstrated its necessary functions.

In addition, supported by a negation and clothed in faith, some economists have pursued their labors with fruitful results. One would be ignorant indeed to deny the importance of the work of men called institutionalists. He would be misinformed if he supposed that their faith was not in some measure responsible for directing them toward the tasks they have taken up. But they have not created an institutional economics. It is the belief that they have that is the astonishing current fiction.

My position may be clarified in this way, and in conclusion. The most original and valuable contributions to economic knowledge in the past fifteen years have been descriptive studies with their accompanying content of analysis. The methods of analysis have been partly drawn from older sources, partly invented *ad hoc* for the problems in hand; the conclusions have been inferred, deduced, or distilled from the data. This analytical inventiveness has added to the content of economics. It may be said to represent, if you like, a series of special contributions to economic theory. No one denies that economic theory is something more than value theory, or contends that formal value theory is the repository of the peculiar economic truths. Much of our economic knowledge has been attained without recourse to systematic theory, or in defiance of it. All this one may state with frank concurrence. It may be regarded as a desirable advance. But why all the varied economic works which have proceeded without benefit of economic clergy, should for that purely negative reason be regarded as constituting an institutional economics is a mystery. Why Clark's studies in costs, Mitchell's studies of cyclical phenomena, Mills's studies of prices, Hamilton's study of the coal industry, Commons's studies of legal institutions should be lumped into one inclusive category which is then married to Hobson, Tawney, Webb, and Sombart is beyond my comprehension. Why not Viner's study of dumping, or Ripley's of railroads, or Watkins's of industrial combinations, or Taussig's of tariffs?

If institutional economics be broadly defined, it is practically co-extensive with economics. If narrowly defined in connection with a Veblenian origin, it consists mainly in a few thin essays, critical, hortatory, and hopeful. If not defined at all, it is a miscellaneous body of works associated with a group of economists reputed to be institutionalists.

In ultimate conclusion, one may record a conviction that the current controversy between a posited institutional economics and a posited neoclassical economics is obsolete, unreal, silly, and beside the point. One could hardly sit through the proceedings of this round-table a year ago without sensing its futility. Its roots nearly a generation ago grew in an absurd anti-rationalism and an equally absurd and satisfied traditionalism. It has had its day and done its work, and may be consigned to the

lower regions without sorrow. In the meantime it has inspired some good work, muddled the minds of graduate students and crippled their training, chastened the minds of the older generation, and caused much surreptitious appropriation of old doctrines and methods by those who professed to abhor them but could not do without them.

If my words are bold, my thoughts are not so. I do not know what the future of economic theory is to be. I have ideas, probably unimportant, probably incapable of affecting the labors of economists in their varied and important tasks. I simply record my inability to see the reality or the prospective reality of an institutional economics differentiated in any definable way from the common goal of economics in its aspects of problems, methods, and generalized knowledge.

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THE PURPOSES AND RESULTS OF THE WEBB-POMERENE LAW

The language of the Webb Export Trade act and the congressional debates preceding its passage, indicated that the full effect of that legislation was to legalize export selling associations, leaving the anti-trust laws otherwise unmodified. Critics of the Act feared that the safeguards against domestic restraint of trade would never be effective. At the time their apprehensions were ridiculed as imaginary. No longer can they be so regarded. For, in addition to the administrative difficulties of enforcing the strict letter of the law, the Act has been liberalized by Commission interpretation far beyond its original scope. The effect has been to convert the Act, as was feared, into a most satisfactory vehicle for "lawfully" violating the Sherman law. Illustrative of this fact is the inactivity of the Federal Trade Commission and the Department of Justice in the face of recent operations and policies of Copper Exporters, Incorporated.

Although the Webb-Pomerene act has been on the statute books since April 10, 1918,[1] its national and international significance has received relatively little attention. This law was the outgrowth of repeated requests to Congress by the export interests of the United States that the restrictions of the anti-trust laws be removed so far as export trade was concerned. In response to these requests the newly formed Federal Trade Commission began a study of foreign trade conditions. In its voluminous report entitled *Coöperation in American Export Trade*, the Commission expressed its belief (1) "that other nations have marked advantages in foreign trade from superior facilities and more effective organizations"; and (2) "that doubt and fear as to legal restrictions prevent Americans from developing equally effective organizations for overseas business and that the foreign trade of American manufacturers and producers, particularly the smaller concerns, suffers in consequence."[2] The report discussed at length the "superior facilities" enjoyed by the exporters of foreign countries, notably shipping facilities, banking and credit connections, the investment of capital in other countries and the effective organization for united action. The development of foreign combinations and their relations to American export trade were especially investigated although somewhat superficially.

The Commission came to the conclusion that American exporters were under a great handicap, (1) because they were forced to meet aggressive competition from powerful foreign combinations, and (2) because in various markets they had to sell to foreign buying combinations which depressed American export prices. The inevitable remedy, as the Commission saw it, was to make it lawful for American exporters to avail themselves of the opportunity to meet combination by combina-

[1] An Act to promote export trade and for other purposes, April 10, 1918. (40 Stat. 516.)

[2] U. S. Federal Trade Commission, report on *Coöperation in American Export Trade*, I, 3.

tion. Hence the recommendation that legislation be passed definitely legalizing concerted action by American exporters, provided that there be safeguards against restraint of trade in the United States by the export combinations.[3]

The Commission's report indicates by and large an innocence of any profound knowledge of the theory of international trade and competitive markets. Not ultimate causes but the results thereof, such as foreign combinations, shipping and banking facilities, are relied upon to explain the greater relative progress of the English and the Germans in foreign trade. Totally lacking is the realization that (barring unfair competitive conditions such as dumping) it is fundamentally the working of the principle of comparative advantage that determines the volume and course of foreign trade. Lacking also is the appreciation that American ingenuity in manufacturing, organization, and trade would rise to the opportunities of foreign trade when and to the extent that the fundamental underlying factors made that trade sufficiently profitable. More serious is the complete failure to foresee: (1) the difficulties of enforcing the safeguards against domestic restraint of trade, and (2) the participation of American export associations in international price and pooling agreements to the detriment of world consumers.

The report as a whole is a glaring example of inadequate and faulty analysis. Thus we are told that "the copper trade of the world has been ruled for years by a vast German metal-buying organization. By making individual American producers bid against each other, they were thus able to buy at comparatively low prices." In corroboration is quoted the testimony of the president of one of the largest American copper companies that, by such tactics and by the manipulation of the foreign future markets, Europeans were able to buy millions of tons of American copper at nearly a cent a pound lower than the price paid by American consumers.[4] Such one-sided testimony was accepted at its face value without further study or analysis to test its validity. It should have concerned the Commission to discover why the European price for copper was ordinarily "83/100 of a cent" cheaper than the New York price, considering the fact that the cost of freight and insurance between the two markets was less than ¼ of a cent. They would have discovered that a free market for copper such as obtained in Europe did not exist in the United States, since the American copper producers had perfected a system of direct selling on a delivered price (basing point) system and had effectively prevented the development of a commodity exchange for the metal. Thus the much more reasonable view that the price discrepancy between the two markets was evidence of an in-

[3] *Ibid.*, p. 10.
[4] *Ibid.*, p. 7.

ability of the American copper producers to control the foreign markets, despite their power over the domestic market, was given not a thought.[5]

Moreover, granted that there were important German cartels organized as selling syndicates and that they conducted an important export business particularly in dyes, electrical equipment, coal and coke, and iron and steel, did it follow necessarily that the successful exploitation of foreign trade was due principally to such coöperation in selling? Or, as far as concerns American exporters, if the principal effect of combination by foreign groups was to enable them to realize a better price in foreign markets, then would it not follow that the very fact of such combinations would improve the opportunities for American firms in the export trade? If, on the contrary, the principal effect was to expand foreign trade by means of dumping, which (as was well known) was often the case, then was not the appropriate remedy international coöperation to eradicate this type of unfair competition? Again, to argue that export combinations could achieve economies of operation that would enhance American export trade was to ignore the potent reasons for our reliance upon competitive rivalry to achieve continued progress in production and distribution.

Fortunately we now know from experience that it is not the economies of combination that attract Webb-Pomerene association activities. Rather it is the opportunity to lessen competitive rivalry, ostensibly in foreign markets. This is shown by an anlysis of the trend of association activities and the increasing volume of business "done" by associations which anomalously do not "do" any business.

From the meager information given out by the Commission on the working of the export trade law, we find that the total value of the exports by Webb law associations year by year has been as follows:

1919	$ 75,000,000	
1920	90,000,000	
1923	153,400,000	
1924	139,700,000	—less than 8 per cent of our total merchandise exports
1925	165,200,000	
1926	200,500,000	
1927	371,500,000	
1928	476,200,000	
1929	724,100,000	—13.8 per cent of total merchandise exports

The rapid increase in the volume of association business after 1924 has been due to a change in the prevailing type of export association as a result of an informal interpretation of the law by the Commission

[5] For corroboration of this view see F. A. Fetter, *The Masquerade of Monopoly*, p. 196.

in 1924.[6] In effect it declared that associations were not required by law to sell the actual goods exported, but could confine their activities to such functions as fixing sales prices or allotting export quotas while the actual selling was done by members. It was likewise held that there was no reason why export associations could not enter into agreements with foreign cartels providing there were no unlawful effects on the American domestic market. It is significant that since this interpretation "the associations subsequently formed were for the greater part essentially price-fixing and not selling combines, the selling and exporting being done by individual members."[7]

Unfortunately the statistics published by the Federal Trade Commission are not classified so as to show the volume of business done by associations of the selling agency type as compared with that "done" by associations of the price-fixing variety. Yet we are told that seventy-five per cent of the trade of Webb export associations in 1929 consisted of metal and metal products, together with products of mines and wells. It is believed that almost all that trade was conducted by individual firms associated under the Webb law for the sole purpose of fixing prices or allocating sales. It is also significant that "there is a noticeable tendency, especially in the case of raw materials, to combine all of the producers for export of the industry; for, as long as there are outsiders, price stabilization is difficult to attain."[8] Why should anyone delude himself into thinking that associations of that type will exercise their power solely with respect to export prices? One would think that the volume of the administrative duties incident to the maintenance of free markets in the United States is sufficiently great as it is without increasing it many times as is done inevitably by the doubtful policy of this legislation.

A careful reading of the Webb law and of the hearings and debates on the bills introduced by Representative Webb and Senator Pomerene, during the Sixty-fourth and Sixty-fifth Congresses,[9] leaves no room for doubt as to the fundamental (even though mistaken) purpose of this legislation. It was conceived with the idea of enabling American exporters, especially the smaller manufacturers and producers, to form coöperative selling agencies so as to compete more effectively in foreign markets with foreign competitors, particularly foreign combinations.

[6] Discussed later.

[7] Notz, *American Economic Review,* March, 1929, p. 16.

[8] *Ibid.,* p. 15.

[9] See *Congressional Record,* vols. 53-56; Hearings before the Committee on the Judiciary, House of Representatives, 64th Congress, 1st Sess., on H. R. 16707; Hearings before the Committee on Interstate Commerce, U. S. Senate, 64th Congress, 2nd Sess., on H. R. 17350; Senate Report No. 1056, 64th Congress, 2nd Sess.; House Report No. 50, 65th Congress, 1st Sess.

The debates clearly indicate that it was not intended or foreseen that associations would qualify under the Act whose activities consisted exclusively or essentially in fixing export prices. In the words of Notz:

The proposed export associations were referred to as "selling agencies" and the opinion apparently prevailed in both Houses that (they) should sell goods and not operate merely as price-fixing groups. This view was upheld by leading attorneys and others, including Judge Webb, whose opinions were requested on this point. The Federal Trade Commission, without issuing a formal ruling, for a time held the same view. The assumption was that an export association as such should engage in exporting, that is selling, and that if the latter was being done by the individual members, while the association merely fixed prices, such an association did not comply with the Act. Moreover, it was felt that the control over mere price-fixing associations would involve administrative difficulties. Opponents of the Act claimed that associations of that type would readily lend themselves as a cloak for domestic price fixing and restraint of trade and would lead to a breakdown of the Sherman law.[10]

Unquestionably the authors of the Export Trade act, Representative Webb and Senator Pomerene, firmly believed that its full effect was solely the legalization of American export selling agencies, leaving the anti-trust laws otherwise unmodified. They firmly believed that their bill so restrained the activities of the contemplated associations that the dangers feared by critics of the proposed legislation were completely eliminated.[11] One of these apprehensions was discussed by Senator Pomerene in the following passage:

A very plausible argument was made yesterday, when the position was taken in substance that this bill was a repeal of the Sherman anti-trust law, and if it became the law of the land and the associations were authorized they would at once seek to control the foreign market, and probably enter into a combination with foreign companies and cartels engaged in the same line of business, and thus reinforced and world-wide in their control of products they would reduce the price of food animals, of grain, and of other products, and raise the prices to the consumer when it suited their purposes. . . . The Senator overlooked the fact that this bill does not repeal the Sherman law. He had in mind one paragraph only and lost sight of all the restrictions and qualifications it contains. I submit that when this bill is construed judicially it will be analyzed as a whole and not one part separate from the other.[12]

Unfortunately the very apprehensions above referred to have subsequently materialized; yet, as the critics feared, the safeguards have never been made effective.

Perhaps the most vigorous and intelligent critic of the bill in the Senate was Senator Cummins of Iowa. He more than anyone else visu-

[10] Notz, *op. cit.*, pp. 15-16.
[11] *Congressional Record,* vol. 56, pp. 169, 4724.
[12] *Ibid.*, p. 172.

alized the possible dangers of the "blanket license" granted to American exporters in the bill. He earnestly strove to secure the passage of an amendment to the bill that would give to American exporters all that they "openly" asked for while still preserving otherwise the full vigor of the anti-trust law. Said Senator Cummins:

> Instead of repealing the anti-trust law (with respect to export trade), I have proposed that we make it affirmatively lawful for exporters and manufacturers or producers in the United States who may be engaged in the production of the same kind of goods to establish and conduct in any foreign country a common selling agency. Of course, that agency must not be managed so as to restrain the trade of the United States, which is just the thing we want to maintain and we want to expand it. . . . I believe that the common selling agency meets every requirement that the exporters or the manufacturing associations are willing to make public. That provision fulfills their demands, so far as I am able to understand them, as laid before our committee; but I feel that there is an ulterior design in giving or in seeking absolute freedom and liberty from any regulatory provision of the law. I know . . . that there are a thousand things that they can do in the United States that will prejudicially affect the people of the United States if they are not held in leash by some provisions such as we now have in the law.
>
> I am not willing to give them this blanket license. I am willing to give them affirmatively what they really need, and what they say, or what most of them say, they really want, but I am not willing to accompany it with permission to organize any kind of an association, any kind of a combination and label it an association for export trade, *knowing that it is utterly impossible to dissociate the activity of an association organized for export trade and the industries carried on for consumption within the United States.*[13]

In reply, Senator Pomerene said:

> I have yet to learn the distinction, in that regard (referring to the authority to organize a selling association), between his (Senator Cummins') amendment and the bill which we have presented. I believe that our bill goes a little further. I believe that it is better, because it is impossible for us to anticipate all the things which it may be necessary for us to do.[14]

Unhappily as it has turned out and as Senator Cummins feared, the very difficulty of anticipating the future was an argument against the bill which went a "little further" than was necessary to meet the actual needs of the situation. Almost prophetic were the apprehensions of the Senator from Iowa as to just what was involved for the national and international economy in passing a bill that "goes a little further." At the time, these apprehensions were ridiculed as imaginary and fanciful.[15] No longer can they be so regarded. In proof thereof let us take, as one case in point, the operations of the powerful copper association, Copper Exporters, Incorporated.

[13] *Ibid.*, p. 175. Italics are the author's.
[14] *Ibid.*, p. 173.
[15] *Ibid.*, p. 172.

This is an association organized in October, 1926, under the provisions of the Webb-Pomerene act.[16] Including within its membership substantially all the American producers of refined copper and having agreements and affiliations with a group of foreign associates, it embraces within its organization producers and sellers of approximately 95 per cent of the world output of refined copper.[17] Copper Exporters, Incorporated is controlled through two central offices, one in New York and one in Brussels. In no sense of the word is the association a selling organization. It exists for the purpose of fixing daily prices (in export markets) and allotting daily foreign sales to its various members and associates. An important part of its policy has been the institution in Europe of direct selling to consumers (who must contractually agree not to resell their copper), thus involving the elimination of copper brokers other than the agencies owned by or affiliated with the producers. The operation of the scheme has involved at times a rigid restriction of daily sales in order to maintain the price policy of the cartel. Frequently this policy has worked great hardship on the consuming interests, preventing them from accumulating reserves at the low prices of 1930 and 1931 and on many occasions keeping them uncertain as to their raw material supplies. This, together with various features of the price policy of the cartel, has embittered European consumers, particularly in the important markets of England, Germany and France, against the cartel. On at least three occasions foreign groups of consumers have cabled protests to the president of Copper Exporters against its restrictive policies.[18] The antagonistic attitude of European copper consumers is reflected in numerous articles appearing frequently during the past five years in important European periodicals.[19]

In view of the fact that the purpose of the Webb law is to promote export trade, proper safeguards should have been included in the law against the development of associations or activities the effects of which are to curtail or restrain the free flow of our export trade. Such a safeguard, in fact, was incorporated in the House bill before it was first passed. It legalized export associations provided they were not in restraint of trade within the United States and provided they did not *restrain the export trade of the United States*.[20] The Senate Committee on Interstate Commerce insisted that this second proviso defeated the

[16] *Commercial and Financial Chronicle*, 123, pp. 1940-41.

[17] *Engineering and Mining Journal*, vol. 125, p. 88.

[18] See (1) *Kartell-Rundschau*, April, 1929, pp. 248-50; (2) *Kartell-Rundschau*, June and July, 1930, pp. 497-8; and (3) *Commercial and Financial Chronicle*, 131, p. 3124, Nov. 15, 1930.

[19] For example the *Economist*, *Statist*, and the important German daily papers, *Berliner Tageblatt*, *Industrie und Handelszeitung*, *Frankfürter Zeitung;* also *Kartell-Rundschau* and *Magazin der Wirtschaft*.

[20] *Congressional Record*, vol. 53, p. 13725.

objectives of the bill, since the removal of the Sherman law restrictions against restraint of foreign commerce was the chief purpose of the legislation.[21] That may well have been the effect of the proviso as worded; yet was it not possible to phrase the safeguard in such a way as to differentiate between the type of restraint of trade which the Act proposed to legalize and that which it did not? The Act proposed to legalize a lessening of competition, either partial or complete, in selling or marketing goods in export trade, which was to be accomplished through the authorization of export selling associations. Yet suppose such an association entered into an agreement with a foreign combination the effects of which were (1) to fix prices and limit the daily sales in foreign markets or (2) to reserve the home markets to home producers and also to divide the trade in foreign markets. In either case there would be a curtailment or restraint of American export trade that resulted not from the lessening of competitive rivalry between American exporters *per se* but from the perpetration of acts that were separate and distinct from such lessening of American competitive rivalry. The failure of the law to make this distinction clear is a serious defect that is by no means imaginary or academic. This is well illustrated by the activities of Copper Exporters, Incorporated.

That the operations of this Webb association are almost constantly in restraint (in the sense of curtailment) of the copper foreign trade of the United States requires but little demonstration. The daily apportionment of European sales between the American producers and their foreign associates definitely acts as a restriction upon the volume of American copper exports. This is particularly true since we are informed that the American members have agreed that in the event of European sales falling behind production, the participation of European members in the daily sales quota increases at the expense of the American members.[22] In at least one other respect the activities of Copper Exporters have been reflected in a restraint of American foreign trade in copper. For weeks and months at a time in the past five years European consumers have reacted to certain oppressive measures of the cartel by resorting to a buyers' strike with attendant unsettling of the market both here and abroad.[23]

The opponents of the Webb bill had earnestly sought to show that the inevitable effect of the formation of powerful export associations would be a restriction of competition in the domestic markets of the

[21] Senate Report No. 1056, 64th Congress, 2nd Sess.

[22] Bureau of Foreign and Domestic Commerce, Dept. of Commerce, Economic and Trade Notes No. 25 from Brussels, Sept., 1928. This is a translation of an article on the working of the copper cartel by Mr. Camille Gutt, managing director of the International Accounting Company, which is the organization that acts as the cartel clearing house for the recording of sales and the determination of quotas.

[23] *The Statist*, 117, p. 808, May 16, 1931.

United States. Unfortunately these misgivings, in view of the novelty of the proposals, were largely of a theoretical nature. They consisted in the attempt to show that the very fixing of export prices by a powerful combination would react on the domestic price situation and would render proof of artificiality or manipulation difficult to discover and difficult to prevent. Said Representative Volstead:

I am satisfied that when this becomes law, if it is taken advantage of by the various industries in this country, as it may be, we shall have, in effect, by indirection repealed the Sherman Anti-trust act. . . . It is enough under this law, as it is under the Sherman law, to make a combination or contract illegal, that its effect tends to create a monopoly or restrain trade. Nothing is said about monopolies in this bill, and it permits prices in the domestic market to be enhanced or depressed if it is not done intentionally or artificially, and competition may be lessened, unless it is a substantial lessening. *It will be practically impossible to prove a violation under language such as that, and the courts cannot be expected to punish the natural effect of the combination expressly authorized or the natural effect of the elimination of competition in the foreign market.*[24] . . . This bill undertakes to relieve the foreign trade from the provisions of the Sherman Anti-trust act, but in doing that it authorizes combinations that must of necessity have a like effect upon the domestic trade, because you cannot separate the two. They are inseparable.[25]

Which goes to show that all the prophets in the Sixty-fifth Congress were not in the Senate.

The operations of Copper Exporters provide ample demonstration of the inseparability of the domestic and foreign markets. Needless to say, spokesmen for the domestic copper producers have endeavored to maintain that their close association with other world producers in the copper cartel in respect to price and the restriction and allocation of foreign sales has no bearing on the domestic market. That is as much as saying that the two markets are quite separate—unrestrained competition at home and controlled markets abroad. Such a view is entirely erroneous. The two markets cannot be kept distinct and separate without restraint of competition in both markets. The refined metal is a staple, standardized product, and is the raw material for fabricated products for which the markets are world-wide and highly competitive. The French, English and German fabricating industries compete with the American fabricators for markets in South America, Europe and elsewhere. As a result, any attempt to control the markets, domestic and foreign, for this important raw product can be accomplished only by coercive methods in restraint of trade both here and abroad. If metal brokers could buy copper in an unrestrained and competitive market, would it be possible for a world cartel such as Copper Exporters to

[24] *Congressional Record,* vol. 56, p. 4723. Italics are the author's.
[25] *Ibid.*

control a foreign market, particularly when there is an important metal exchange in that foreign market? The answer is clear, as anyone familiar with competitive markets knows. For example, if the price of copper c.i.f. Brussels is fixed at 12.30 cents per pound when the market price in New York is 11.50 cents for 30 days' delivery, arbitrage transactions would soon eliminate the price discrepancies. The existence of such price discrepancies in favor of the American consumer at times in the past five years is not proof that the two markets are normally separate. Rather it is proof that the sale of copper in America is so controlled that metal sold in the domestic market is available only for domestic consumption. In that way American export trade in copper is restricted to the members of the Webb association.

The purpose of this paper is an endeavor to show that the fears and apprehensions of the opponents of the Webb Export Trade act have been borne out by subsequent experience. In large part this was the inevitable effect of the degree of freedom to combine that the Act authorized. Yet in part also it is the result of a subsequent broadening of the Act by interpretation which makes one wonder whether the Congressmen whose votes secured its passage would have been willing to go as far as they did, had they been able to look into the future with as much vision as Senator Cummins and Representative Volstead. The language of the authors of the bill was such as to lead one to believe that the answer must be in the negative. For had it been realized in 1918 that this legislation would have been so interpreted by the Federal Trade Commission as to provide a vehicle for the oppression of foreign people and likewise a "cloak for domestic price fixing," it is almost certain that more adequate safeguards against such eventualities would have been demanded. Yet both these results are possible and have resulted from the informal ruling of a majority (three out of five) of the Commission in 1924.[26]

The ruling was in response to certain queries propounded by a committee of silver producers who contemplated forming an export association. To the question, "Do the provisions of the Webb-Pomerene act limit persons (natural or corporate) who may enter into such an association, to citizens of the United States or corporations formed under the laws of the United States or some state thereof?" the Commission replied in the affirmative. After a brief explanation, however, they added, "There is nothing in the Act which prevents an association formed under it from entering into any coöperative relationship with a foreign corporation, for the sole purpose of operation in a foreign market. The

[26] Mimeographed for release in the morning newspapers of August 6, 1924. Curiously enough there is no record of this important ruling in the annual reports of the commission.

only test of legality in such an arrangement would be the effect upon domestic conditions within the United States." This helpful suggestion was reiterated in answer to a question covering the validity of a trade agreement between a Webb-Pomerene association and non-nationals with respect to a foreign market. Said the Commission:

The purpose of the act seems to have been to provide a method for eliminating competition in foreign markets *among domestic producers.*[27] As stated above, there seems to be no reason why a Webb-Pomerene association composed of nationals or residents of the United States and actually exporting from the United States, might not adopt a trade arrangement with non-nationals reaching the same market providing this market was not the domestic market of the United States and the action of this organization did not reflect unlawfully upon domestic conditions. It does not seem, however, that nationals and non-nationals who are also non-residents, might unite within the Webb-Pomerene association itself.

It is our belief that this erroneous interpretation has opened the door for the accomplishment of purposes and the perpetration of acts thoroughly undesirable and inconsistent with the ideals and trade philosophy of the American people.

That the foregoing interpretation is erroneous may be demonstrated by the fact that both the language of the Webb act and the debates that preceded its passage show an intention of modifying the application of the Sherman law in one respect only. The Act explicitly provides that it exempts from the Sherman law "an association entered into for the sole purpose of engaging in export trade and actually engaged solely in such export trade, or an agreement made or act done in the course of export trade by such association, provided such association, agreement, or act is not in restraint of trade within the United States, and is not in restraint of the export trade of any domestic competitor of such association; *and provided further*, that such association does not, either in the United States or elsewhere, enter into any agreement, understanding, or conspiracy, or do any act which artificially or intentionally enhances or depresses prices within the United States of the class exported by such association, or which substantially lessens competition within the United States or otherwise restrains trade therein."[28]

Before the passage of the Webb act it would have been illegal under the Sherman law for a combination of American copper producers, or zinc producers or the producers of any other product to enter into an agreement with a group of foreign producers having the effect of limiting competitive rivalry in the production and sale of their product in domestic or foreign markets. The only modification of this policy made

[27] Italics are the author's.

[28] 40 Stat. 516.

or intended by the Webb act was the relief granted to American producers to combine for the formation of associations "entered into for the sole purpose of engaging in export trade." No license for the perpetration of conspiracies against foreign consumers was given or intended. It is to be deplored that judicial interpretation of this important question has not been invoked, although the operations of more than one Webb association have been such as to have given plenty of opportunity to the Department of Justice and the Federal Trade Commission to test its validity.

Equally important with the foregoing was the ruling in response to the query as to whether an association would qualify under the Act if its activities consist solely in allotting export orders among its members or in fixing export prices. Said the Commission:

> The act does not require that the association shall perform all the operations of selling its members' product to a foreign buyer. The limitation upon methods of operation is to be found in the words "in the course of export." The Commission has recently passed upon the conduct of an association which does not itself export but which performs a price-fixing function and an allocation of business, and *sells*[29] at the wharf to others than the association, who conduct the export movement from that point. The position which the Commission takes is that the consummation of a sale within the United States if the product sold is intended for and actually is marked for and enters into export trade, is in the course of export within the meaning of the act. It would seem, therefore, that an association may without necessarily involving conflict with the act, [be] engaged in allotting export orders among its members and in fixing prices at which the individual members shall sell in export trade.

With all due deference to a bare majority of the Commission, one is forced to the conclusion that the interpretation expressed in the last lines of the quotation is unsupported either by the language of the law, the recommendations of the Federal Trade Commission in its report on *Coöperation in American Export Trade*, or the course of debate in the Congress which enacted it. Nor, peculiarly enough, does it follow from the case cited by the Commission in the foregoing quotation. For while it may be a reasonable interpretation from the wording of the Act and the definition of export trade contained therein to hold that a sale consummated *by a Webb association* within the United States under the circumstances indicated is "in the course of export trade," yet it by no means follows that an association qualifies under the Act, when it does no trading or selling whatsoever. The Act specifically says that an association must "be actually engaged solely in export trade." Only selling associations were contemplated and legalized by the Webb law and a failure to so recognize perverts its purposes and renders its safeguards inadequate.

[29] Italics are the author's.

The recommendations of the Federal Trade Commission in its report on *Coöperation in American Export Trade* likewise support the view that selling organizations alone were to be legalized. Said the Commission:

As safeguards against the dangers of such organizations it is recommended specifically that the kind of coöperative associations or organizations permitted be clearly defined; that they be restricted solely to export business as distinguished from domestic business; that they be limited to the activities of selling goods as distinguished from the production or manufacture; and that the term "export trade" be defined to mean solely trade or commerce in goods, wares or merchandise exported and be specifically stated not to include the production or manufacture of such goods, wares, or merchandise or any act in their production or manufacture.[30]

A careful reading of the Act will show that each of these suggestions was followed to the letter. It should be emphasized that the Congress thought that there is a real distinction between coöperative action in the form of an export selling agency and coöperative action in the form of an agreement as to export prices. This distinction was recognized in the act by specifying that export trade "shall not be deemed to include the production, manufacture, or selling for consumption or for resale, within the United States or any territory thereof, of such goods, wares, or merchandise or any act in the course of such production, manufacture, or selling for consumption or resale." By this restriction the selling associations were definitely prohibited from producing and from selling on the domestic market. In that way the Congress sought to insure a clear separation between the act of selling for export together with the agreements involved therein, and the business of producing and of selling on the domestic market. This distinction is completely nullified when the individual producers do their own exporting and simply use the association as a medium for agreement on export prices and allotment of business for export.

As we have indicated, critics of the Act had feared that it would be used as a cloak to temper competitive rivalry in domestic markets. Yet the proponents of the Act firmly believed that these suspicions were unwarranted and dissipated through the inclusion of a clause in the Act vesting in the Federal Trade Commission the responsibility of scrutinizing the actions of Webb associations so as to preclude their misuse. It was to be the duty of the Commission, whenever it "shall have reason to believe that an association or any agreement made or act done by such association is in restraint of trade within the United States or in restraint of the export trade of any domestic competitor of such association or that an association either in the United States or elsewhere has entered into any agreement, understanding or conspiracy, or done any

[30] Part I, p. 380.

act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association or which substantially lessens competition within the United States or otherwise restrains trade therein," to conduct an investigation into the alleged violation of the law. The Commission itself is not empowered to issue a cease and desist order in the event of discovery of violation of the law. It may only recommend to the unlawful association that it bring itself into conformity with the law. In the event of failure to comply therewith, the Commission must refer its findings and recommendations to the Attorney General for appropriate action.

That the Commission is either unwilling or unable to prevent violations of the law[31] is evident from even the most casual study of the activities of Copper Exporters, Incorporated. For an entire year beginning April 15, 1929, the price of copper both for export and for domestic sale was pegged at 18 cents per pound in the face of declining sales and rapidly mounting stocks of refined metal unsold.[32] It is ridiculous to suppose that it was a mere coincidence that the thirteen or fourteen important sellers of the metal on the domestic market (who were also members of Copper Exporters, Incorporated, through their affiliations with the producers) had an unvarying quotation day by day for three hundred and sixty-five days. The artificiality of the price was witnessed further when pressure (who knows whether it was economic, political or legal?) forced the association to lower its price. In one day the quotation c.i.f. European ports and for domestic delivery was dropped simultaneously in each market by four cents with disastrous results to all fabricators who had made commitments on the basis of 18 cent copper. In the course of the next seven months the price fell off by four and one-half cents more. It is the settled opinion of market experts that the uneconomic pegged price of 1929-30 was equally responsible, along with the world-wide depression, for the resultant accumulation of copper stocks.[33]

Having flouted the law, both economic and statute, and having earned the antagonism of foreign consumers by its price and restriction of sales tactics, Copper Exporters proceeded to make plans for a restriction of output. To that end a conference of the full membership of Copper Ex-

[31] It is significant that the cost of administering the Export Trade Section is reported by the Commission to be $4,606.50 for office expense and $314.95 for field expense in 1929 and 1930, $5,619.83 and $393.33 respectively. No better proof can be cited to show that there is no intention of exercising the surveillance that is ordered in the law and that is necessary for the protection of the public. Moreover, the Commission in its written reports and in its response to inquiries, maintains the utmost secrecy respecting the details of the operation of this law.

[32] *Metal Statistics*, 1930 and 1931 editions.

[33] See, for example, article by J. R. Finlay, *Engineering and Mining Journal*, vol. 128, pp. 971-2. Also Arthur Notman, *Engineering and Mining Journal*, vol. 131, pp. 103-4. Also Percy E. Barbour in the New York *Annalist*, March 7, 14, 21, 1930. Also *The Statist*, 1930-31, *passim*.

porters was held in New York in November, 1930. More than 90 per cent of the copper production of the world was represented. According to the New York *Journal of Commerce*,[34] final agreements for the curtailment of world copper output were reached on November 13 to take effect December 1. The reduction was to be 23,650 tons monthly or about 16 per cent of the existing average monthly output of 147,000 tons, already considerably curtailed by the decisive drop in the price of the metal. Announcement of the results was given to the press not by the officials of Copper Exporters but by the domestic trade association, the Copper Institute. The Copper Institute announced that "after a survey of conditions it had decided to *recommend* such a reduction as will prevent increase of existing stocks and which, it was advised, does not violate the law. . . . The move for reduction has been declared legal by counsel for the reason that the present production is in excess of normal and reasonable market requirements with resultant creation of excess stocks and that there is no price fixing agreement," and "that the reduction by each member is purely voluntary and without coercion."

That such a conspiracy or "recommendation" was unlawful has been declared both by the Supreme Court of the United States and likewise by the Attorney General then and now in office. In the United States Steel case the Supreme Court specifically stated that the policy of the Gary dinners was illegal and in March, 1929, Attorney General Mitchell advised the Petroleum Institute that an agreement for the reduction of output was unlawful.[35] Moreover the Federal Trade Commission had specifically warned the "Silver Producers" that "the arrangement must be devoid of any concerted curtailment of production or withdrawal from the domestic market of any part of its normal supply." It would be mere sophistry to assume that a "recommendation" accompanied by an exact restriction apportionment was not a concerted curtailment. Yet neither the Federal Trade Commission nor the Department of Justice has interfered. What more proof is necessary that the Webb-Pomerene act has proved, as was feared, to be a most satisfactory vehicle for "lawfully" violating the law? At the worst, if you are caught, you are warned or recommended to readjust your methods; at the best, you stand a good chance of not getting caught because after all you function under the auspices of legislation designed to "promote export trade and for other purposes."

The foregoing analysis is an attempt to show in the first place that

[34] Reported in *Commercial and Financial Chronicle*, 131, pp. 3123-4, November 15, 1930. Italics in the quotation following are the author's. Another conference of world copper producers was held in New York in October, 1931, and resulted in an agreement whereby each producer is to curtail production to 26½ per cent of estimated capacity beginning January 1, 1932.

[35] *Commercial and Financial Chronicle*, vol. 128, p. 2211.

the Webb Export Trade act, even when interpreted according to the strict letter of the law, is unsound because it goes farther than is necessary in promoting legitimate coöperation in export trade. As a result it has materially enhanced the problem of anti-trust law enforcement within the United States. The psychological situation created by the Webb act has the effect of lulling the suspicions of the Federal Trade Commission and the Department of Justice. In other words, it creates serious administrative difficulties; for, since the Act encourages American producers to combine so as to lessen export competition, the Department of Justice in order to prove a resultant domestic restraint of trade by such a combination must find overt acts and other unquestioned evidence of conspiracy against domestic consumers.

Secondly we have sought to show that the erroneous interpretation by the Commission in 1924 has materially broadened the scope of the Act, thus endangering the maintenance of competitive markets in the United States, while at the same time it promotes American participation in world monopolies and converts the Act into a vehicle for the oppression of foreign people. Finally it is evident that the safeguarding provisions have not been enforced and have proved in practice to be totally inadequate for the protection of the American consuming public.

In conclusion it is pertinent to indicate the relationship between the preceding discussion and the various proposals that are now being made for a modification of the anti-trust laws. No better proof of the dangers of tampering with the Sherman law can be offered than the results of our experience with the Export Trade act. To give to the Federal Trade Commission or to any other administrative body the power to grant immunity from prosecution to combinations and agreements which they deem to be in the public interest is to invite a duplication of that experience. It is to be deplored that the secrecy which has shrouded the administration of the Webb-Pomerene law prevents a general recognition of the lesson to be gained from studying the working of that legislation.

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MARGINAL COLLATERAL TO DISCOUNTS AT THE FEDERAL RESERVE BANKS

This article examines the practice of the federal reserve banks in requiring eligible or near-eligible paper as so-called "marginal" or "additional collateral," to paper *discounted* by them, in contradistinction to advances on member banks' notes payable collateraled by United States securities or eligible paper. As a setting for collateraled discounts, the history and purposes of collateraled advances are stated, as well as the reasons for the ascendancy of such advances over discounts. In their publications the federal reserve authorities fail to acknowledge any difference between (1) rediscounting and (2) allowing advances against eligible paper pledged; nor do they report separately the absolute or relative amount of discounts to which "additional collateral" is required, nor the "margin" required, nor the number of members putting up such margins, nor any other data relative thereto. There are no provisions in the Federal Reserve act or regulations for the practice; and yet it is no mean method of credit control. The reasons offered by the reserve banks for the practice are: (1) to repress excessive borrowing by the applicant member, in the interest of the reserve bank, of the applicant member, or of the system as a whole, using this device as a supplement to credit rationing, discount rate variation, and moral suasion; (2) to increase the protection to the reserve banks themselves for credits granted; (3) to compensate for the less rigid insistence by the reserve banks on technical qualifications in credit granting and thus to make possible greater extensions of credit to members than can be had on the strict merit of the paper offered for discount; and (4) to acquiesce in greater degree to the traditional methods of inter-bank finance and to break down the isolation of the reserve banks from the business and financial world. Each of these reasons is examined and criticized.

The purpose of this article is to examine the practice of the federal reserve banks in requiring eligible or near-eligible paper as so-called "marginal" or "additional collateral," to paper discounted by them. It is not believed that the nature and purpose of this practice or even its existence is known by the general public. Except in 1921 when the belligerent comptroller of the currency complained that eleven out of twelve of the federal reserve banks were thus endangering the member banks, little or no publicity has been given to the practice. There are scattered through the voluminous publications of the federal reserve only a few incidental or inferential references to the practice, and there are no direct provisions for it in the Federal Reserve act or regulations. No separate statistics have been published to reveal the amount or proportion of discounts to which collateral was required or the amount or percentage of margin required; and yet, as will appear later, this is a very important feature of discount policy and operation. Indeed, when the writer of this article approached the federal reserve banks with a few elementary questions about the history, methods and purposes of the usage, he was made to feel that he was treading within the sacred precincts of business secrecy, some failing to acknowledge receipt of his inquiry, others refusing to answer any question at all because some of the questions appertained to "a matter of internal banking policy and procedure," or "could at best only reflect personal opinions," another insisting upon a previous committal as to the purpose of this inquiry and the proposed use of the

information, and another, instead of answering specifically the questions asked, replying "in a general way, believing it would give a better idea both of our purposes and practice." There was also evident in the replies a notion that the practice was founded upon impeccable tradition, for the bank is "simply using the same rules that have applied to commercial banks . . . an integral and accepted part of the function of credit granting," a practice which has "always been according to common sense and banking experience," "a natural and obviously necessary part of the function of granting credit." The reader may well wonder at the writer's temerity in proceeding further!

Under the provisions of the original Federal Reserve act, eligible paper might be purchased by the federal reserve banks in the open market or discounted for member banks, but there was no provision for direct loans collateraled by eligible paper. Under the amendment of September 7, 1916, however, the reserve banks received the additional authority to make direct advances to members on their promissory notes, for a period not exceeding 15 days, provided that the notes were secured (a) by notes, drafts, bills of exchange or bankers' acceptances which are eligible for rediscount or for purchase by the reserve banks, or (b) by the deposit or pledge of obligations of the United States.

This amendment represented one of the early compromises of original theory of the system with practical expediency. The traditional method by which an American bank procured a loan from its correspondent was on its note collateraled by receivables or securities, and not by rediscounting receivables. It was an easier process, inasmuch as for both the borrowing and lending bank the computation of interest and discount on the many pledged receivables was avoided; it was safer for the lending bank also because a margin of security could be required and a collateral note of sweeping provisions could be employed; furthermore, it was handier in case the bank needed funds for only a few days at a time and did not have receivables of corresponding maturity; and finally, it made easy an adjustment to the traditional conception that it was wrong for a bank to borrow and that for a bank to borrow was *prima facie* evidence of poor management and bad conditions. Adjustment to this preconception was easier because when paper was pledged rather than sold it could be endorsed in pencil or by stickers and it was also less likely to leave the lending bank's hands, and consequently the loan could be concealed more readily from the local public.

The framers of the federal reserve had taken a position contrary to this traditional method of inter-bank loaning and had striven to make rediscounting the approved and only method by which members got funds from the federal reserve banks. It was thought that rediscounting would bring the reserve bank into closer contact with the business com-

munity and therefore tend to accentuate the public functions which the new reserve system was to perform; that direct advances against securities might encourage speculation in the securities market and/or the making of capital loans—two things the new system was designed to restrict rather than to promote; and that it was safer since rediscount paper would bear the name of the member bank as well as of the maker, whereas the advances against securities would bear only the member's name.

It is probable that the indifference of the member banks to the discount facilities of the federal reserve banks and the active effort of metropolitan banks to maintain their correspondents' dependence upon them for accommodation would in time have inclined the federal reserve to sacrifice its idealism and yield to the traditional collateral loan method; the isolation which the federal reserve banks felt through 1915 and 1916 and the slow progress they made in favor and service to members and in winning state banks to membership blunted the reformist spirit of the reserve authorities and made them more acquiescent to the wonted ways of the financial world. But the necessities of war finance precipitated this attitude: it was no time to stickle and stipulate for reforms that interfered with the flow of funds for taxes and war loans; the ideal of the hour was to make financing easy even if the ideals of 1913 had to be sacrificed, and in this process the collateral loan took ascendancy.

The war put voluminous quantities of government securities in the hands of individual and corporate borrowers and in the banks; this very increase in the quantity of pledgeable securities would naturally redound in similar expansion of loans so collateraled. But the use of such security was enhanced by the fact that in the flotation of the war loans the local suscribers were encouraged to buy bonds paying down but a small part and borrowing the remainder from the local bank on their note secured by the bonds; these notes so secured were made eligible for rediscount at the federal reserve banks; and member banks were encouraged to subscribe on their own account and borrow most of the cost from the federal reserve bank as advances against the bonds bought. Preferential rates scarcely above the rate borne by the bonds were allowed by the reserve bank, and these, together with the slender margins required and with the readiness to lend and even encouragement to borrow, made most easy the performance of a patriotic duty to subscribe to bond issues.

The use of loans collateraled by government securities was promoted by war financing in yet another way. The transfer of the legal reserves of national banks from their own vaults and from their correspondents in reserve and central reserve cities was to be accomplished within three years by quarterly shifts, according to the Federal Reserve act; and this process was under way when war was declared in 1917. Since the heavy

inflow of gold had flushed our bank reserves and rendered the transposition of reserves easy, and since the exigencies of war made control of the total gold reserves by the federal reserve highly desirable, Congress, by law of June 15, 1917, required that the remainder of the reserves be shifted at once to the federal reserve. The new revenue bills boosted government receipts to unexampled size, and the flotation of short-term Treasury notes and certificates of indebtedness and the funding of these from time to time by the flotation of the Liberty and Victory loans subjected the money market to giant stresses and strains, making it exceedingly difficult for banks to maintain adequate reserves by the normal manipulations of their portfolios. The system of penalties on deficient reserves introduced by the Federal Reserve act would have wrought havoc had it not been made possible to borrow at the reserve banks for short periods to cover temporary deficiencies. The Federal Reserve Bank of New York allowed a special low rate on one-day loans arising from government loan operations. If on any day it appeared to a member bank that its reserve would be deficient, it was profitable to borrow, on the basis of government bond security, enough to cover the deficiency rather than to pay penalty rates thereon; and since such loans were readily renewed, members were really permitted to take up their paper whenever they pleased.

These measures adopted largely to facilitate war financing have, it appears, continued in use because the method of advances against government securities is easier to execute than the method of rediscount. This greater mechanical ease is especially considerable in case of small loans for short periods. Almost all the banks, for a considerable time at least after the war, owned some government obligations that could be pledged as collateral at the reserve bank, and such securities could themselves be borrowed for a small commission by the banks that had none. The reserve banks renewed these advances freely. The result was that advances against government securities supplanted rediscounting of eligible trade paper; and this was surely contrary to the original conception of the basis of federal reserve credit, for its framers contemplated that reserve credit should rest on short-term trade paper and not on fixed bonded indebtedness of the government. It is true that the federal reserve banks cannot issue federal reserve notes directly on government securities purchased and owned by it or on notes secured by such collateral; but this is not an important matter so long as the reserve bank has paper discounted or purchased which it can pledge for federal reserve notes. In its annual report for 1926, the Federal Reserve Board called attention to the declining ratio of eligible paper to total loans and investments of national banks, from 24.2 per cent in 1920 to 18.2 per cent in 1926, and explained it as due to (1) the relatively more rapid growth of in-

vestments and of loans on investments, paralleling the greater growth of time deposits than demand deposits, and (2) the decrease in the volume of loans secured by United States obligations, as the government debt was reduced and as these obligations were absorbed by permanent investors. And Dr. B. M. Anderson in 1929 gave considerable publicity to the point that there was then in New York a scarcity of eligible paper, due in part to the recent practice of corporate current financing through common stock rather than commercial paper.

After 1929 the volume of commercial paper and banker's acceptances expanded greatly, and scarcity of paper no longer explained the exceeding use of advances secured by government obligations rather than rediscounting. The amounts (relative and absolute) were also affected by certain changes in rate structure and marketing; for instance, as long as the scheme of preferential rates on so-called "war paper" obtained, the volume of commercial paper offered for discount remained small, but the rate increases late in 1919 resulted in larger offerings. Or again, the demand for Treasury certificates grew rapidly after the war, each new issue being heavily oversubscribed; as the market widened they went directly to investors, and the federal reserve bank was called upon to carry certificates on *repurchase agreements for dealers* rather than on *rediscounts for banks* which hitherto had carried them until the market could absorb the Treasury offerings.

The preference for advances rests largely on the fact that the operation is so much handier. The federal reserve bank operates a customers' securities department, which holds securities in its vaults and cares for coupon clipping, etc., for member banks free of all charge. Inasmuch as member banks, especially in rural communities, have relatively poor vaults for protection of their securities against the modern yeggs, the free service of keeping and caring for its securities is by itself no mean advantage; but it also enables the member bank readily and easily to borrow from the federal reserve bank against these securities already in its custody; it does not require the member to prepare numerous eligible notes, drafts or bills of exchange for discount, but simply to dispatch its own promise to the federal reserve bank. In 1928 one of the federal reserve banks, not the largest, reported that during the year it received from the outside 83,367 pieces totaling $195,620,000, and had detached 211,279 coupons, and that it was holding at the end of the year $194,969,000. This bank, while not favoring long-time loans, does permit its members to renew their 15-day loans indefinitely and has never refused to renew, some loans running 1, 2, 3, or 4 years.

Not all banks have government obligations that they can use for this purpose. The national banks pledge most of their 2 per cent consols with the United States Treasury as security for national bank notes.

Others pledge their government obligations to protect government and postal savings deposits; the great number of bank failures in some areas has boosted surety rates to prohibitive size and made bond pledge a cheaper method of protecting such deposits to the government's satisfaction. In newer and agricultural areas there is a propensity for the local banks to carry a minimum of bonds on account of their low yield as compared with the 8 or 10 per cent on local loans, and government bonds are less popular with them than second or third grade bonds affording higher yields. Banks having, for any of these reasons, few government obligations are denied access to the federal reserve for advances on these and they must proceed by the two more cumbrous methods (1) of rediscounting, or (2) of procuring advances against eligible paper.

It is with these two more cumbrous methods that this article aims to deal primarily and what has gone before is designed to orientate and differentiate the subject.

In their publications some federal reserve banks fail to acknowledge any difference and lump together the "additional security to secure advances made as a result of their rediscounting their note secured by eligible paper." The two methods are much alike but the differences are full of meaning. Under the first of these two, some federal reserve banks require that, when a member's rediscounts and borrowings other than those collateraled by United States securities exceed a certain amount, the member must deposit a reasonable amount of paper as marginal collateral to the paper discounted, as long as such excess borrowing continues; the process is one of *discounting* eligible paper secured to some extent by the pledge of other paper which may or may not be eligible. The discounted paper may have up to 90 days or 6 months yet to run to maturity, depending on its origin, and the additional collateral may run equally long or for a shorter period, in which case other paper may later be substituted.

Under the second method a member bank receives an advance on its own promissory note, not exceeding 15 days, collateraled to its face amount or more with paper eligible for rediscount; this note is drawn in sweeping terms empowering the reserve bank to appropriate any funds belonging to the member bank and lodged with the reserve bank for purposes of reserve, or for safekeeping, or for collection, etc., and to liquidate the same for satisfaction of the advance in case demand for additional collateral is not promptly met or payment is defaulted at maturity.

This latter method was specifically authorized by the amendment of September 7, 1916; but the former method rests upon an interpretation of Section 5202, R.S., which limits the obligation of a national bank for rediscounted paper or direct borrowing to its own capital stock, but

excepts paper rediscounted with or money borrowed from a federal reserve bank. This provision is construed as practically granting discretionary power to the reserve bank to fix the maximum limit to which the member may obligate itself; and when a member has tried to borrow in excess of its capital stock the reserve bank has set certain discouragements, such as requiring marginal collateral, or requiring directors personally to guarantee the excess borrowings, or imposing graduated discount rates.

The practice of requiring "additional" or "marginal" collateral to eligible paper discounted appears to have been adopted very early in the history of the federal reserve and at least as early as 1921 was used by all the reserve banks but one. Its use had received a distinct impetus as a depressant in the inflationary period 1919 and 1920. One federal reserve bank states that "from the very beginning of organization it established the practice of taking marginal collateral from all banks when their rediscounts aggregated as much as the capital stock of the applying bank." In its annual report for 1915 the Federal Reserve Bank of San Francisco declared that "if paper is not of satisfactory quality, the right is recognized of requiring additional collateral, but there seem good grounds for believing that no member bank can be operated wisely whose paper is normally of such inferior quality that it will not meet the moderate requirements imposed," and that "in no instance, thus far, has additional collateral been required." Another reserve bank began the practice as a "result of its experience with paper rediscounted for banks that closed while under discount"; another suggests that the practice arose by borrowing on collateral notes and rather by accident, "because member banks learned by experience that it was more convenient for them to pledge eligible paper and then borrow on their notes payable as their needs might dictate, which in practice frequently resulted in their having a margin with" the reserve bank.

One federal reserve bank reports that "for a number of years past it has not required or accepted excess collateral"; another that the "number of banks from which marginal collateral is requested is small as compared to the number of banks usually borrowing"; another that it has "become quite a custom in this district for member banks to pledge additional collateral to secure the advances made on eligible paper"; another that the "number of banks pledging additional collateral materially varies from time to time"; and another that the "necessity arises in the rediscounting of a larger amount of credit than the bank should require or a poorer condition of the borrowing bank than existed at the time of first borrowing." From these statements one may conclude that there is little uniformity in the degree to which the practice is employed at the present time.

Nor are there for the most part any definite or fixed rules on the subject. One bank says that it is "entirely a matter of credit judgment"; another that the "amount required is based upon the circumstances in each case, which include the character of the paper rediscounted and the value of the endorsement of the member bank"; another believes that the "amount of marginal collateral requested is much less than would be requested from the same bank by a commercial bank"; and another that its "requirement is based on the condition of the bank as reflected by the examiner's report and other information" in its files. These and similar pronouncements by the other federal reserve banks indicate that when application is made for rediscount of eligible paper or for advance against the member's note collateraled by eligible paper, the authorization and terms of the accommodation are determined by the credit department and the discount committee of the reserve bank on the basis of such principles of credit granting and business expediency as guide the bank at the time, and these vary from time to time.

Upon the endorsement of any of its member banks, any federal reserve bank may rediscount notes, drafts and bills of exchange arising out of actual commercial transactions; and the Federal Reserve Board is given the right to determine or define the character of the paper thus eligible for discount, within the meaning of the Federal Reserve act, which made certain positive and certain negative stipulations relative thereto. Eligibility was denied to paper having periods longer than specified maxima to run and to paper where the funds represented were used for speculative purposes. Following the lines laid down by the Committee of Technical Experts who worked out the operating mechanism of the federal reserve system, the Federal Reserve Board in its preliminary interpretation concluded that the act made it mandatory for the federal reserve bank to discount for its member banks without regard to their size, provided they furnished paper of satisfactory quality; that it required as nearly as possible an absolutely uniform standard of eligibility applicable both in country and city and in every part of the country alike; that it was desirable that paper to be eligible should be liquid, and that both single-name and two-name paper should be rediscountable.[1] The Board then proceeded to draw up "Regulation A, Discounts under Sections 13 and 13a," which set the definitions of eligible paper, and prescribed the methods of application for discount. In this no mention of "marginal collateral" is made directly or indirectly.

It is to be noted that rediscounting with the federal reserve bank is a permission granted to the member bank by the reserve bank and not a right of the member against the reserve bank. The reserve bank may rediscount or not as expediency or inclination may move it; and the

[1] Willis, Fed. Res., 906.

reserve bank may decline to accept paper that satisfies all the prescribed canons of eligibility, on the ground that the paper or the member bank or both are not good credit risks, or that the member has already borrowed enough or too much or too continuously. In other words, eligible paper may not be acceptable paper; it must be not only technically eligible but also desirable from a credit point of view with warrantable expectation that it will be duly and fully paid. "As federal reserve banks are not permitted by law to discount any paper which does not bear the endorsement of a member bank, it is clear that in order for a federal reserve bank to render financial assistance to those engaged in commerce and industry, in agriculture, or in raising of livestock, the loans must first be negotiated with member banks. There are many loans, however, which member banks may legally and properly make which cannot be rediscounted with federal reserve banks for the reason that the law does not admit of the classification of such paper as eligible. A federal reserve bank, therefore, cannot discount any paper, however good it may be, which is not technically eligible under the terms of the Federal Reserve act; and, on the other hand, it is entirely within its rights in declining to discount notes which, even though technically eligible, are not satisfactory from a credit standpoint."[2]

Under Regulation A, the reserve bank is directed to use its discretion in taking the steps necessary to satisfy itself as to the eligibility of the promissory notes offered for discount; the use to which the funds represented were or are to be put may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities, and the reserve bank is permitted, in all cases, to require the financial statement of the borrower to be filed with it. Similarly with bankers' acceptances the reserve bank must satisfy itself, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and provisions of Regulation A; this bill should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the federal reserve bank. Every application for the discount of notes, drafts, or bills of exchange must contain a certificate of the member bank that, to the best of its knowledge and belief, such notes, drafts or bills of exchange have been issued or drawn, or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for discount.

Thus, as for eligibility, the reserve bank may rely quite heavily upon the face of the paper and the certification of the member bank, but as for acceptability, business wisdom would require a credit investigation

[2] Fed. Res. Board, Annual Report, 1921, pp. 92-3.

of the applying member bank and the other name or names on the paper. In order to facilitate the passing on applications, Regulation A provides that in case of promissory notes "a recent financial statement of the borrower must be on file with the member bank in all cases, unless the note was discounted by a member bank for a depositor (other than a bank) or for another member bank and (1) it is secured by a warehouse, terminal or other similar receipt covering goods in storage, by a valid prior lien on livestock which is being marketed or fattened for market, or by bonds or notes of the United States; or (2) the aggregate of obligations of the borrower discounted and offered for discount at the federal reserve bank by the member bank is less than a sum equal to ten per cent of the paid-in capital of the member bank and is less than \$5,000." These provisions represent minimum requirements, and the reserve bank may, in all cases, require the financial statement of the borrower to be filed with it. In case of drafts, bills of exchange, and trade acceptances the reserve bank may require a recent financial statement of one or more parties to the instrument. There is no uniformity in the requirements by the reserve banks under these authorities. The Federal Reserve Bank of Kansas City, to use one illustration, does not demand a statement from farmers on unsecured loans of less than \$500 or from retail dealers on unsecured loans of less than \$300; the discrimination in favor of farmers rests upon the experience of that bank that farmers' loans are safer than merchants' loans and upon the fact that merchants are more able to prepare financial statements; for loans smaller than these sums the word of the member bank is final, as the reserve bank has little outside credit data concerning small local borrowers.

In the light of the foregoing discussion it may be assumed that when an application for rediscount reaches the federal reserve bank that bank has the means of determining both its eligibility and its acceptability. Our concern is the action of the bank when it refuses to discount eligible paper unless the applicant member puts up as marginal collateral other additional paper eligible or ineligible, in amount and kind satisfactory to the reserve bank. Four reasons have been offered for this peculiar action, and the remainder of this article will be devoted to these.

I. The reserve bank uses this device to repress excessive borrowing by the applicant member. The judgment that the borrowing is excessive may be based on the welfare of the reserve bank, or of the applicant member, or of the system as a whole. If the member becomes overextended, the reserve bank's holdings of its paper are endangered; and against such a contingency the reserve bank may well forefend itself. It is also impolitic for a central bank by over-indulgence in loans to encourage or facilitate a member bank to undo itself by inflation; on the

contrary, the central bank has a sort of guardianship to perform in the public interest, especially to maintain the stability of the banking structure and to adjust the volume of credit to the seasonal, cyclical and secular variations in business needs for credit. And finally, Section 4 of the Federal Reserve act requires that the board of directors of the federal reserve bank shall administer its affairs "fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks." There is, of course, a certain maximum amount of credit which the reserve bank can extend in conformance with the restrictions of law, business expediency and public welfare; this total is divided among its member banks, and if an exceeding amount is granted to one or a few members, others may be deprived of obtaining what they regard as their due share under the legal provision for impartial treatment. The reserve bank may, in other words, be forced willy-nilly to ration its credit upon some basis of just proportionment. This necessity is present in respect to some members in normal times, but in cyclical periods of prosperity it becomes widespread.

Against undue inflation the federal reserve authorities have at times issued warnings, tried moral suasion, advised members to reduce their outstanding lines and to discriminate against speculative and non-essential loans, rationed reserve bank credit, and raised the discount rate.

The plan of rationing federal reserve credit had a most natural origin. Although Section 5202 of the Revised Statutes of the United States, which provided that no national bank should at any time be in any way liable for borrowed money to an amount exceeding the amount of its capital stock, had been amended by excepting liabilities incurred under provisions of the Federal Reserve act, it was not contemplated by the Federal Reserve Board that the member banks would, except to meet seasonal requirements or emergencies, avail themselves of this amendment in order to extend their discount lines beyond the original limitation[3] From the start, therefore, the amount of its capital stock was fixed upon by the federal reserve bank when it came to place a reasonable restraint upon the borrowing propensities of member banks as the reasonable sum for any member to borrow; and, since national banks had been used to that upper limit, they acquiesced readily in the practice.

But it did not appear expedient to make that sum the absolute unvarying limit; for instance, one reserve bank required additional collateral equal at least to 25 per cent of the discount line when the line

[3] Fed. Res. Board, Annual Report, 1919, p. 68.

exceeded the amount of its capital stock, and as banks increased their line beyond that point the required percentage of marginal collateral was increased. Later the practice of this bank was not to require additional collateral until the line exceeded the capital plus one-half the surplus. Another reserve bank says that from good banks with unimpaired capital and reasonable surplus and with good record at meeting their obligations to it, additional collateral is not asked until the line exceeds the capital and surplus, and that this practice rests on the belief that a bank's endorsement adds little after borrowings exceed net worth.

It is possible to combine credit rationing and rate increase as a means of checking excessive borrowing by members. It is unfair to conservative banks which borrow relatively little, and for seasonal needs only, to be forced to pay rates made unduly high by the heavy borrowings of incautiously managed and chronically and heavily borrowing members. In the interest of conservative banks in the period 1920-23, a combination of rationing and rate raising was employed by the federal reserve banks of Kansas City, Dallas, St. Louis, and Atlanta, under the Phelan amendment of April 13, 1920, which changed section 14 (d) by adding the provision that discount rates "subject to the approval, review and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the federal reserve bank to the borrowing bank." The theory of this amendment was that since all members were entitled to impartial accommodation at the reserve bank, any member getting undue accommodation, at the expense, potentially at least, of its fellow members, should be penalized progressively according to the magnitude of the excess of borrowings above its legitimate basic line; such a penalty, it was thought, would serve to restrain its borrowings by making them less profitable.

In putting this amendment into operation the first task of the reserve bank was to determine the basic line of credit for each member. The computations of these lines differed somewhat among the four reserve banks, but were all based on the ideas that the line should be proportioned to the net contribution of a member to the assets of the reserve bank and that the reserve bank could keep out in circulation federal reserve notes in an amount big enough to bring its reserve to the legal minimum of 40 per cent. The basic line would be, therefore, 65 per cent of the average reserve balance plus the paid-in subscription to the capital stock of the federal reserve bank multiplied by two and one-half. On this basic line the normal discount rate was applied, but on the excess above this amount super-rates were applied graduated according to the size of the excess. Certain loans were exempted to some degree, for ex-

ample, those collateraled by government securities owned by the member bank. The device proved to be too severe and mechanical, and, by making an inflated bank pay usurious rates, made it a martyr for its community and thus created much "political ammunition" for the enemies of the federal reserve; and the amendment was repealed consequently in 1923.

The scheme of progressive rates for reducing excess borrowing had worked in unforeseen ways. Although only four federal reserve banks adopted the device, all of them submitted reports regularly to the Federal Reserve Board covering excess borrowings. The ratio of total borrowings by all member banks to their aggregate discount line, which averaged 78 per cent for the 10-day period ending May 20, 1920, continued to rise (for the system as a whole) until the middle of December, 1920, when it reached 91 per cent; thereafter it gradually receded, standing at 37 per cent a year later. The larger banks in the financial and manufacturing centers reduced their excess borrowings materially, while an increasing number of the smaller banks, especially in agricultural states, became borrowers in excess of their basic lines. While the number of excess borrowing banks continued to increase, the basic discount lines and average borrowings of such banks declined very sharply. This disparity is accounted for by the gold imports, business recession, and price decline, together with the practice of reserve city banks, forced by progressive rates and business expediency, of shifting their borrowing bank customers to the federal reserve banks.

The problem of restraining a member bank with an inflationary bent, therefore, remained, and other devices had to be used when moral suasion would not avail. The Comptroller of the Currency urged the need for limitations and safeguards against the possibility of excess borrowing and recommended that the maximum for a member bank be fixed by law at a specified multiple of its capital and surplus.[4] The Federal Advisory Council held that the most effective way to handle the situation was by the personal influence of the governor of each federal reserve bank on the member banks borrowing to excess.[5] The Federal Reserve Board indicated the manner in which such suasion was used, saying that a federal reserve bank "may have occasion to call attention of some of its larger borrowing banks to their large discount lines, which have run in some cases over a period of years without being reduced, and have called the attention of the borrowing banks to the necessity of working themselves into a stronger position. But in no case within the knowledge of the Federal Reserve Board has any federal reserve bank undertaken to say

[4] Annual Report, 1921, p. 8.
[5] Annual Report, Fed. Res. Board, 1922, p. 411.

to a member bank what particular loans it should call or ask to have reduced."

There was needed some positive, objective, traditional and well-understood device whereby the reserve bank could effect this restraint on expansive members. The experience of the reserve banks at determining proper lines of credit for member banks had undoubtedly been beneficial to the system; and the transition or relapse to the general practice of insisting on marginal collateral when borrowings exceeded a certain line was quite easy. The demand for collateral reduces the amount of credit that can be had against a certain amount of paper, and by insisting on a wider margin the reserve bank can repress borrowing without actually refusing to lend or raising the rate. If the loans are already outstanding, a demand for additional collateral may force the member to call local loans. The purpose aimed at in the Phelan amendment is thus attained by the device of additional collateral, but the terms and conditions are less standardized and public and are more at the discretion of the reserve bank officers and more varying from time to time.

One Federal Reserve bank describes its practice as follows:

> In requesting our member banks to pledge additional collateral in connection with their borrowing promises we take into account all the factors which are ordinarily considered in the extension of credit; such as the ratio of borrowings from us and from other sources to the capital investment, the composition of the bank's assets, and other circumstances which may apply to the particular case, at the same time taking into consideration the information shown in the reports of examination as well as our experiences with the bank, and its own record of performance. We have no set rule in this connection as we consider each particular case separately, but we always try to follow a consistent policy when the same conditions apply. It does not necessarily follow that by reason of having requested a member bank to pledge collateral in one instance or season we will request it again; for conditions may change and the member bank may show an improvement in its affairs.

The device of requiring additional collateral against rediscounts meets the approval of the Federal Reserve Board. In a letter to the writer the Board states (1931) that it "considers the practice of requiring additional collateral in certain cases, in the form of either eligible or ineligible paper, as an integral and accepted part of the functions of granting credit, and in harmony with the responsibility of the federal reserve banks in protecting their resources. Section II of Regulation A of the Federal Reserve Board states that the Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for discount at a federal reserve bank has determined among other things, '(e) it may be secured by the pledge

of goods or collateral of any nature, including paper which is eligible for discount, provided it (the note, draft, or bill of exchange) is otherwise eligible.'" This pronouncement in Regulation A does not bear exactly upon the point of the federal reserve bank requiring at the time of rediscount *additional* collateral to eligible paper which may or may not have had collateral at the time of discount by the member; it merely indicates no expressed preference for or discrimination against paper collateraled by eligible or ineligible paper; and it is doubtful virtue for the Board to try to make this pronouncement appear to be a long-standing public declaration that it approved the practice of asking additional collateral for discounts.

II. The second and most frequently named purpose of the federal reserve banks in insisting on marginal collateral when discounting eligible paper is to increase protection to themselves. For paper discounted the reserve bank is secured by the endorsement of the member bank, by the names on the paper, and by any bill of lading, warehouse receipt or other thing of value that may be attached to the paper. If the reserve bank has access to sufficient credit information about the applying member bank and about the names on the paper offered, it would seem that it could determine whether the paper were not only eligible but acceptable, without resort to asking for marginal collateral. However, if there is any doubt—and such doubt is most likely to arise in case of an inflated bank—the reserve bank may take double caution by insisting on a considerable margin of collateral. Looked at from this point of view, the rediscount secured by additional eligible paper and the advance secured by eligible paper are nearly identical, since the reserve bank receives added security by the amount of marginal collateral required.

As stated earlier, in the requirement of additional collateral there is no uniformity either among the federal reserve banks or in the treatment of its members by a federal reserve bank or from time to time; moreover, although the essential nature of a discount secured by required additional collateral and an advance secured by receivables is much alike and some reserve bank officers think of them as identical, the discount is less frequently used than the advance. It is probable that rediscounting would sink to a still lower figure if the recommendation made by the Federal Reserve Board in 1927, 1928 and 1929 had been adopted by Congress, namely, to amend Section 13 of the Federal Reserve act increasing from 15 to 90 days the maximum maturity of advances secured by paper eligible for rediscount and thus putting this method of borrowing on an equal usance basis with discounting. The advance is handier in all other respects; and among these is the facility for equalizing the safety of the advance by adjusting the amount and character of the collateral. The same discount rate applies to all members on all types

of paper, but paper is not equally desirable. Since generally collateral is not required against discounts, the minimum standards of the paper are set higher and are followed more rigidly. If weaker paper is offered for discount, or if the member is unable to furnish credit information in satisfactory form, or if the credit line of the member bank is exhausted, an equality of safety can be attained by requiring additional collateral. In times like 1920-21 and 1930-31, with rapidly declining values and heavy withdrawals of deposits, the credit of banks weakens and the requirement of additional collateral becomes wise.

The question of what is the proper amount of risk for the federal reserve banks to take is a nice one that percolates deep to the fundamental purposes of the federal reserve system. The reserve bank may take the position that it is not only entitled to be secure but it is also charged with making loans to member banks that will insure the return of the money with interest, for otherwise it would be negligent with the revenues of the United States government which is the beneficiary inheriting the excess earnings of the reserve bank above its expenses and the dividends to its members. It may hold that a reserve bank should do only safe things and not purposely take chances and unnecessary risks, not willfully seek losses; that the bank is a semi-public institution and has no right to loan to certain banks, regions or industries with a view to losing the funds there. The United States government itself does not take chances; it takes a prior lien on taxable property for its tax claim and when it deposits funds in a bank it insists on the pledge of first-class bonds as security. The federal reserve bank has a similar right and duty to guard against loss, especially since what it loses is now a deduction from the franchise tax to the government and amounts to a distribution of government funds.

As a general principle, the federal reserve bank takes the position that a member bank may benefit from its name up to its capital and surplus and may borrow from the reserve or other banks to that amount without collateral, but beyond that its name is exhausted and further protection is warrantably asked. It may make exceptions of banks in which it has great confidence and lend them beyond capital and surplus without additional collateral, while to others it loans less than this amount on account of its knowledge of the condition of the bank, and the ability of their management; some of the larger banks may have credit much greater than their capital and surplus but they are secured by government bonds.

The critics of this policy feel that the reserve bank is too conservative and that it should take more chances and share the risks of the community. They argue that the reserve banks were not intended to accumulate profits, that they ought to operate in a way not to make

profits, that is, to absorb more in losses. In their view, the trouble in 1921 was the mad effort of the federal reserve banks to avoid loss after their mad policies of expansion. Some argue that the purpose of the federal reserve was to help member banks and the reserve banks should, therefore, take some risks in cases where the member's difficulty is due to economic circumstance and not to crooked officers or poor management.

It should be said, in partial answer to this argument, that every federal reserve bank has taken some losses on discounted paper. One federal reserve bank up to December 31, 1928, had loaned its members \$9,605,000,000 and taken a loss thereon of \$51,000, representing a loss ratio of 0.0000053. Such a ratio means that that bank although in the agricultural area, which has been in chronic depression, is really run on a riskless basis. Of the members failing in a certain portion of its district it held, on date of failure, paper amounting to 173 per cent of their borrowings, besides reserve balances and paid-in capital stock which boosted holdings to 196 per cent of borrowings. It is quite obvious that this bank uses the device of additional collateral against discounts and advances to prevent loss on accommodations to members!

Another reserve bank boasts "that the losses of this bank have been smaller than those of any federal reserve bank in the agricultural section of the country or of any of the six smaller federal reserve banks." Not all the federal reserve banks are so cautious and successful, for the writer knows of one instance where a federal reserve bank lost \$570,000 on a single member! One bank says, "In the case of failed banks, excess collateral has undoubtedly saved us from losses or, at least, has expedited the liquidation of our relations with the failed bank, but after we are paid, all unpaid paper is turned back to them and they find themselves in the same position they would have been had they not put up their collateral with us." This bank, of course, fails to acknowledge that the pledge of additional collateral made it a preferred creditor to that amount and that therefore the depositors are not in the same position as they would have been had the collateral not been pledged.

While the reserve bank tries to hew to the Federal Reserve act and regulations, it has occasionally extended loans, although its judgment was not to lend under the circumstances, in order to save a bank or to aid farmers, and it has suffered losses at times for so doing; as a general thing, however, it takes marginal security in such cases. The reserve bank does not undertake to guarantee the continuance of its members, especially when the insolvency is confessedly due to unsound management; it feels a duty to help a solvent, although over-extended member, if there is any chance of saving it and its clientele from disaster. It is not a proper function of the reserve bank to assume a

portion of the risk incident to the bad management of a member. Experience has proved, to the satisfaction of the reserve bank, that over-loaning by member banks themselves and, in consequence, over-borrowing by their customers have been more largely responsible for the failure to repay borrowed money than has the physical condition of the community in which the borrower resides. And it is this proved fact which warrants the reserve bank in using the device of marginal collateral as a restraint on over-borrowing and as a means of greater safety.

There are, of course, dangerous and unfair implications in measuring the amount of service rendered by a banking institution according to the amount of losses it suffers on loans extended. The carte blanche adoption of that criterion of service would put a premium on reckless and uneconomic extension of credit; and bank failures would be looked upon as beneficial rather than harmful events. In all probability, a bank that is stable, dependable, safe, long-lived and conservative, taking only the reasonable losses that occur after strict credit analysis of loan applications, is of greater service to a community than a series of profligately run banks that fail, wrecking the fortunes of thrifty stockholders and depositors in order that ill-timed, unwise, or mismanaged ventures of borrowers may have a fling at fortune. Moreover, if the reserve bank discounted only eligible and desirable paper, the per cent lost would measure the risk taken; but since it will discount paper not strictly eligible perhaps, or at least not highly desirable, if it be given marginal collateral, it loses less and at the same time may be doing a greater service, inasmuch as it is loaning more and to those otherwise disqualified.

The critics of the marginal collateral device hold, furthermore: (1) That the practice prevents the local bank from loaning to capacity, for the bank simply abstains from rediscounting. Those who magnify the duty of banks to their community naturally complain of this crippling practice. (2) That the federal reserve bank takes all the good paper from the portfolio of the member, and in case of failure it is protected at the expense of protection to depositors, and that it is wrong thus to constitute the reserve bank a preferred creditor. In his annual report of 1921 the Comptroller of the Currency opposed the practice on this ground, for at times it left the member bank in a difficult position if called upon to face extraordinary demands from depositors, as it would not have sufficient desirable paper available with which to obtain needed funds. He praised the one federal reserve bank which at the time did not ask additional collateral and made each discount stand on its own bottom, for this was, he contended, the "plain intent and purpose of the law." (3) That the amount of margin required is excessive, not warranted by the risk, and inclines the member to borrow elsewhere. It must be highly disappointing to the founders of the federal reserve who were

sanguine that the elimination of redeposited reserves would minimize the dependence of country banks upon reserve city correspondents and would concentrate their dependence upon the federal reserve banks, to find that members depend still more for accommodation upon reserve city correspondents than they do upon the Federal Reserve banks. A part of this inclination to cling to old friends rests, no doubt, on the lesser margins required when accommodation is granted. (4) That there is no warrant for requiring additional margin, anyway, for the reserve bank is already amply supplied with security represented by the member's subscription to the reserve bank's capital stock, the member's reserve balance, the member's endorsement on the paper, and the discounted paper, the best the bank has. The answer to or qualification of these criticisms has been given or implied above and will not be rehearsed here.

III. The initiation and development of the use of the marginal collateral device accompanied a transition in the policy of the federal reserve authorities in looking less at the safety and liquidity of the paper offered for discount and more at the credit title of the applicant member. The practice of asking additional collateral for discounted paper is accordingly justified by the federal reserve bank on the ground that it makes greater extensions of credit to members possible than can be had on the strict merit of the paper offered for discount. Paper which is technically eligible but not acceptable as a credit risk is made acceptable by the pledge of additional collateral and is, therefore, discounted, whereas without such support it would be turned down. Furthermore, if the federal reserve bank feels that it is not getting proper coöperation from the directorate of the member bank in stemming expansion of discounts and advances to several times its basic line, it may ask the directors to guarantee the borrowings of that member. Thus the personal credit of the directors, as well as the additional marginal collateral, is made to support technically eligible but not desirable paper.

Undoubtedly it is a happy circumstance for the reserve bank that a device quite generally used to restrict member borrowings can be used to enlarge member borrowings. The applying bank can be caught, if not deceived, on one horn or the other of this fork; and its use for the two opposite purposes makes difficult the measuring of its actual effect on volume of credit extended. Under the guise of helping a member to greater credit the real purpose may be to sew up its assets and prevent its borrowing more there or elsewhere. In order to obviate any such criticism, some of the reserve banks accept as additional collateral other classes of paper than eligible paper, that is, second class paper or securities.

The federal reserve banks frequently resort to this justification of requiring additional collateral. One bank states that "notwithstanding

the regulations defining eligibility of paper and the general practice among federal reserve banks of requiring credit statements, it is not always possible to be thoroughly convinced of the goodness of all paper offered, notwithstanding its eligibility. Therefore, in order to deal as liberally as possible, with reasonable safety, the rule for requiring marginal collateral was established and applied without discrimination. . . . Our rule enables us to go further than we would be willing to go or would feel justified in going without the collateral requirement." The Federal Reserve Board "is of the opinion that the practice has enabled the federal reserve banks to deal more liberally and expeditiously with many member banks in the matter of granting credit than would have been possible had it not been resorted to."

While these practices have made greater advances to members possible, they have tended to reduce the average quality of the paper discounted by the reserve banks. It is a general principle of central banking and surely one that was prominent in the early plans and life of the federal reserve, that the reserve banks should accept the best and only the best paper of each discounting member bank. This does not mean that the reserve bank would have the cream of the paper of the United States, for maybe the best banks would not be rediscounting; the banks discounting may be largely the smaller agricultural banks whose best paper might rank below the second-grade paper of the large metropolitan bank. When the reserve banks accept undesirable paper, provided that it is supported by pledge of other paper, the paper in the reserve banks may sink, therefore, to third grade. The banks discounting may also be the most necessitous, and quite possibly they have already exhausted their best paper and are offering their second and third grade. Moreover, they are likely to reach this stage at the most dangerous phase of the business cycle and they call on the reserve bank to help them weather the period of business stress when values are falling and security failing. In crises like 1920-21 and 1929-31 the average quality of the paper held by the reserve bank also falls because public pressure on the bank to save its members and preserve the district against unnecessary difficulty then is heaviest. With few exceptions there is no market for the paper accepted as additional collateral. The federal reserve bank can only hold it to maturity; in this respect it differs from advances against government securities; it is illiquid.

Indeed the whole practice of discounting collateralized eligible paper makes for illiquidity of central bank portfolio. There may be fair warrant for the practice in emergencies but little warrant for its chronic employment with respect to any bank or to the banks of any area. A better policy for the reserve bank would be a consistent effort to lead the banking and business community to higher standards of operation

and credit practice. In 1921 the Federal Advisory Council considered the advisability of rediscounting paper, the eligibility of which may be doubtful on account of condition statement of members, and recommended that in normal times the policy of the system should tend toward establishing a high standard of eligibility but that under existing depression circumstances the policy of the reserve banks should be to avoid the application of technical rules in determining eligibility and to accept paper tendered for relief of a real situation even though below standard.[6] While such departures from strict following of law, regulation and credit theory are dangerous unless done sparingly and carefully, both business and political expediency probably require them.

IV. It was said above that the practice of asking additional collateral for discounted paper started and grew apace with the practice of the reserve banks in giving less attention to the safety and liquidity of discount paper and more attention to the credit of the discounting bank. This was a part of the more general retreat of the reserve authorities from the idealism of the founders of the federal reserve, and of a greater acquiescence to the accustomed methods of finance. The high excellence of the early definitions and regulations governing eligibility was gradually chiseled away by qualifying interpretation or open abandonment; financial statements of borrowers were less positively and frequently required; the effort to transform our credit system to the trade and bankers' acceptance was abandoned; a considerable distinction was drawn between acceptable paper and eligible paper; and whether paper was discounted turned as much on the status of the applicant bank as on the eligibility of the paper.

The interior banks had been accustomed for generations to borrow from their metropolitan correspondent on their promissory note collateraled by receivables; the correspondent had always been somewhat careless with respect to technicalities and security of these pledged receivables and based his loan on the applicant bank's general statement and financial rating. The correspondent established a line of credit for his bank customers which was understood by both to be a more or less dependable accommodation in case of need. The early effort of the federal reserve authorities to transform this system and substitute the system of rediscount of highly liquid notes and acceptances having proved ineffective and having tended to isolate the federal reserve bank from its member banks, it seemed logical to abandon some idealism and meet the member on terms comparable with those obtaining between the member and correspondent.

This change meant that the assembly of financial statements and other credit information and the scientific analysis of such data had to

[6] Annual Report, Fed. Res. Board, 1921, p. 687.

be undertaken along the lines developed by the metropolitan banks. The result was the installation of a credit department in each federal reserve bank distinct from but intimate with the discount department; and this credit department now works out the acceptability and to a less degree the eligibility of paper. Because the customers of the reserve banks are largely member banks, this credit department possesses more data, and more thorough-going and intimate data, with respect to its members than does the ordinary metropolitan bank concerning its interior correspondents; but its information about local borrowers from members, especially the smaller borrowers, is not yet comparable in scope and completeness with that of the big city banks.

The softening or abandonment of reformist efforts and the tendency to yield to traditional bank ways have provoked both praise and condemnation according as the critic was standpat or reformist; but there is no question that the reaction within the federal reserve administration has stifled the expectation of many in the leadership which they fancied the federal reserve would exercise in perfecting our financial practice.[7]

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[7] This article was in page proof at the time of the introduction into Congress of the Glass-Steagall bill; this legislation will modify certain statements in the article, at least for the time it is on the statute books.

CENTRAL GOLD RESERVES, 1926–1931

Paper presented at annual meeting of the American Statistical Association, Washington, D.C., December, 1931.

The increase of central gold reserves during the five years 1926-1930 was unexpectedly large. Several unusual sources from which gold was drawn into central reserves are noted in detail. The bulk of the increase in central gold reserves was absorbed by the Bank of France. French short-term balances abroad made this movement possible; but the active factors behind French gold imports were largely internal. An analysis of these factors emphasizes the difficulty of controlling the amount or duration of the flow. Similar difficulties stood in the way of redistributing the surplus gold with which the United States entered the period. As a result of developments in 1931, however, countries with inadequate reserves have been driven off the gold standard; and this very fact offers them the incentive and the opportunity to return at an exchange level that will promote the acquisition of gold from countries which now have a surplus. The pattern of international movement of gold which seems indicated for the next five years bears little resemblance to that of the period now past.

Perhaps the most striking fact with regard to gold reserves in the last five years has been their enormous increase. It has, I think, been quite unexpected. We have, for instance, the interesting estimates of Joseph Kitchin back in 1926 as to what the next five years would bring forth. After a careful enumeration of all the factors, he anticipated that the world's monetary gold would increase during that period by about $800,000,000.[1] No man was considered better informed or more able to make such a forecast than Mr. Kitchin. Yet the central gold reserves of the world in the five years ending with 1930 have grown by nearly $2,000,000,000.

An increase of this sort requires some explanation. Furthermore, certain features of the division of this gold among central banks during the period are full of implications for the present. I shall therefore deal with the period 1926-1930 as a whole, and then consider briefly the twist that 1931 has given to the world situation.

The extraordinary increase of nearly $2,000,000,000 in central gold reserves was somewhat more than matched by the total output of gold from the mines during the same period;[2] and had these been the only two elements in the situation, there would have been nothing particularly surprising about it. But Kitchin had counted in his forecast upon a heavy absorption of the newly mined gold in two directions. He knew that a substantial amount was taken annually by the industrial arts, and he knew that from time immemorial India had regularly absorbed large amounts of the metal in the hoards of its princes and its peasants. He overestimated considerably the amounts that would be taken in these

[1] *Harvard Review of Economic Statistics,* July, 1926, pp. 117 and 119. Kitchin's estimate for the five years to 1929 was $850,000,000. For the five years to 1934 it was $600,000,000.

[2] More exactly the figure for increase in central gold reserves was $1,950,000,000, and that for gold production $2,025,000,000.

ways, for he had just witnessed huge purchases by India in the period when the world was suffering from depreciated currencies and India and the United States were the only great markets for gold. But nevertheless the industrial arts and Indian hoards were together responsible for an absorption of over $700,000,000 of gold during the five years under consideration.[3] How was it possible for these demands to be supplied and at the same time for central gold reserves to increase by nearly the full amount of gold production during the period? The answer lies partly in the general return to the gold standard.

In the first place, the French program of stabilization involved the release of $90,000,000 of gold which had lain pledged since 1916 against a war loan from England, quite unavailable for monetary use. But the stabilization of the franc had a more important concomitant than this. The remainder of the old pre-war gold coin in circulation, which was still hoarded, began to be sold to the Bank of France. This movement was particularly heavy after the franc was legally stabilized at a reduced par in June, 1928. The publics of other countries responded in the same fashion to stabilization of their currencies—though on a much smaller scale. Altogether about $275,000,000 flowed into central gold reserves during this period from the remainder of the pre-war circulation.[4]

It is possible that a similar phenomenon was also occurring in Soviet Russia. At least Russia has either exported net or added to its central reserves during the period about $170,000,000 more gold than it has produced.[5]

Finally in 1929, as a by-product of Australian difficulties, came the opening up of the substantial vault holdings of the Australian trading banks. These holdings hitherto had not been available for central reserve purposes. Year after year they had been withheld—largely as an expres-

[3] More exactly $725,000,000, of which $350,000,000 represented the addition to Indian hoards computed by deducting the increase of the government gold reserves in India from the sum of net imports of gold plus domestic gold output. The remaining $375,000,000 was derived by the residual method. It represents the excess of the world's output plus the supply made available from special sources (described in succeeding paragraphs) over the consumption of gold in central reserves and Indian hoards. About one-third of the amount thus indicated as taken for industrial consumption is known, on the basis of United States Mint figures, to have been consumed in the United States.

[4] A small part of the figure for return of gold coin from circulation is estimated. The bulk of it represents official information with regard to coin repurchased from the publics concerned.

[5] The U.S.S.R. publishes no comprehensive data on gold. The figures for gold production used in the above computation are those published by the United States Mint. Although they are in part estimated, it is believed that they overstate, rather than understate, actual output. The figures used for net exports of gold are those of the net movement between Russia on the one hand and England and Germany on the other. At an earlier period Russian exports to Sweden were of dominant importance; but during the five years under consideration the only substantial movements appear to have been those involving England and Germany.

sion of the independence of the trading banks. They were finally dynamited loose by the economic crisis and some forceful legislation; and they have now been safely added to the extent of some $120,000,000 to the central gold reserves of the world.[6]

In these various ways central gold reserves were increased by about $650,000,000 during the period. In fairness to Kitchin it should be said that in his forecast he was dealing with monetary gold in general rather than with central gold reserves in particular, and that he would admit his forecast in error only to the extent that he underestimated the mining output and overestimated industrial and Indian demands. The sources that I have been describing he would say represented merely transfer from one monetary use to another. I am not interested in criticizing his forecast, which seemed to me intelligent at the time. But I submit that the really effective monetary gold of the world is that which is held in central gold reserves. It is this gold which enables monetary systems to function; while gold hoarded, say by the French public, is no more available in a monetary sense than gold hoarded by the Indian peasant, even though the French gold may bear the government stamp.

I have dealt with these irregular sources in some detail because of their inherent interest and because they have played a really important part in the increase of central gold reserves in the five-year period. Needless to say they are not of recurrent character and cannot be counted upon in the future. The fact that in the future central banks must compete with India and with the arts for an annual increment of gold not much larger than the output of the mines is of fundamental significance. It must definitely affect any conclusions which we reach with regard to the present situation.

Turning now to the question of how the increase of $2,000,000,000 in central reserves was distributed among the various countries, it can be stated at once that the Bank of France took nearly three-quarters of the whole amount. Germany was rebuilding its reserves under the Dawes Plan during the period, and a number of smaller European countries were improving their gold position in a modest way. But the French case is so outstanding, and the forces governing the gold flow to France are so illuminating to study, that our time can best be devoted to explaining this movement with some degree of precision.

The essential background of the French developments is to be found in the enormous short-term balances held abroad by French banks throughout the period—a period characterized by the free flow of funds

[6] The figure given represents the excess of Australian gold exports over domestic production of gold and the shrinkage in the gold reserves of the Commonwealth Bank (both issue and banking departments). It agrees closely with the reduction reported by the trading banks in coin and bullion holdings, in which, however, are included subsidiary coin.

to foreign markets. At the end of 1929 the aggregate of foreign short-term balances in the United States, England, and Germany was in excess of $8,000,000,000; and the French banks and people were at all times dominant among the lenders.

Just how these French balances were acquired need not be discussed in detail; for they were merely the background and not the active cause of the gold flow to France. Suffice it to say that in the post-war period France has enjoyed a substantial income from three sources: (1) interest on what remained of the great mass of foreign investment built up before the war; (2) the expenditures of the army of foreign tourists which annually descends upon the country; and (3) what was until recently a growing volume of reparation payments. The income from these sources has been only partially offset by payments on her own war debt and the remittances of foreign workers within her borders to their families abroad. As a result, the only factor that could have kept the foreign assets of the country from growing by some half billion dollars a year would have been an excess of merchandise imports of approximately that amount—or else imports of gold. But in the years immediately preceding stabilization of the franc there were no gold imports, and France enjoyed a favorable balance of merchandise trade. The very factor that had played a part in producing this favorable balance—*i.e.*, the slow depreciation of the franc—was also a powerful stimulus to the export of capital, both short and long-term. It was in these years, then, that the French accumulated the remarkable volume of balances abroad which, as I have said, constituted the essential background of the gold imports which were to follow. But to understand just why the foreign balances were converted into gold in varying amounts from time to time, we must look to a quite different set of factors.

The gold takings of France fall naturally into two periods. The first period runs two years from May, 1927. The second period covers the remaining two years and a half to the present time.

The explanation of the gold flow in the earlier period is comparatively simple. The Bank of France bought the gold on its own initiative. The incentive to do so lay in the fact that its foreign exchange holdings threatened to become unwieldy following the *de facto* stabilization of the franc at the end of 1926. That event, coming close upon Poincaré's aggressive measures to balance the budget, brought a return of confidence in the franc which rapidly became cumulative. Substantial amounts of the balances built up abroad in the depreciation years were repatriated —*i.e.*, were sold to the Bank of France in exchange for domestic currency; and the bank presently found itself in the anomalous position of being more a foreign than a domestic bank. The bulk of its portfolio was

abroad. Under the circumstances it started to convert its foreign exchange holdings into gold, taking the gold from the country which could most easily spare it—*i.e.*, the United States—and on the whole choosing the times most convenient to us. This continued until the spring of 1929 when purchases by the Bank of France ceased entirely. Its foreign exchange holdings were then about $1,000,000,000. Heavy conversions into gold had been necessary to keep them down to this figure and the bank had been subjected to some criticism for what appeared to be its unreasonable demands upon the gold supply of the world. In ceasing to buy gold on its own initiative, however, the bank could not, and did not, stop the gold flow to France. It merely put the commercial banks under the necessity of purchasing gold on their own account; and the commercial banks sought out the cheapest market, which was England. The demand was transferred from the United States, which could best spare gold, to England, which could least spare it.

But why did the French commercial banks need to import gold? The answer lies in what was happening internally in France. I have spoken of the first wave of repatriation of French balances which followed the de facto stabilization of the franc. This had nothing to do with internal needs and would have created a surplus of domestic funds had not the French treasury absorbed the bulk of them in building up its own cash resources and liquidating the indebtedness at the Bank of France with which it had been left by the depreciation period. Gradually, however, the stabilization of the franc began to produce another effect. The public, with confidence restored, developed a willingness to hold larger stocks of currency both for current transactions and as a store of savings. This first phase merged into the second in which mounting prosperity increased the *ability* of the people to build up cash reserves. Then in the last quarter of 1930, when depression was just beginning in France and the growth in circulation should have come to an end, banking troubles led to hoarding for safety. This third phase has merely been accentuated by the international crisis.

The extraordinary growth of money in circulation in France constituted a terrific drain upon commercial bank reserves. This drain had already begun to assert itself even during the period when the Bank of France was buying gold on its own initiative. During that period the banks replenished their reserves by selling foreign exchange to the Bank of France. When the Bank of France ceased to buy foreign exchange, they were driven to import gold and sell that. The Bank of France is, of course, under statutory obligation to buy gold at a fixed price.

Although the demand of the French public for money has been the chief influence behind the continuous movement of gold to France, another factor has recently assumed outstanding importance—namely, the

desire of the French banks to have an impregnable cash position. The first evidence of such a desire followed the Oustric scandal and the minor banking difficulties in the fall of 1930. It was sharply accentuated when the international monetary crisis developed in the summer of 1931. It became extreme in October following the threatened collapse of the Banque Nationale de Crédit.

Other influences have been at work. The government balances, which were built up early in the period by the withdrawal of surplus funds from the market, have fluctuated since that time, now easing, now tightening the situation. But their net effect since first they were accumulated has been small. Similarly, domestic discountings at the Bank of France have varied without leaving any permanent results. It may strike some as curious, in view of the enormous need for funds experienced by the French banks, that they did not borrow from the Bank of France instead of drawing upon their foreign balances. But it must be remembered in this connection that London and New York were throughout this period essentially the open market of the French banking system. France had no adequate open market of her own. Surplus funds of the French banks went into this foreign market; and it is only natural that as they were again needed, they should be withdrawn. It is customary for banks to use their open market resources in preference to resorting to the central bank; and particularly in France, where the central bank is in competition with the commercial banks in many phases of their activity, this tendency upon the part of the commercial banks to rely upon their own resources is understandable.

In any case the banking need for funds, which rose as the surplus of the repatriation period disappeared, was consistently met by drafts on the foreign balances; and taking as a whole the period since June, 1928, when the repayment of state indebtedness at the Bank of France was finally completed, the drafts have been almost wholly on account of the growth of money in circulation and the recent building up of the cash position of the banks against possible runs. For these two purposes \$1,500,000,000 was required; and \$1,500,000,000 represents the gold transferred to the Bank of France during the period.[7]

One cannot examine in detail these forces—so largely internal—behind the French gold movement without realizing the extraordinary difficulty of shortening the duration of the flow. Had the Bank of France been willing to expand its foreign portfolio indefinitely, the flow could have been prevented altogether—at least so long as the bank could maintain

[7] That is, the period from the end of June, 1928, to the end of November, 1931. I do not stop with December, 1930, because it is not a natural dividing point in the French case, and because the forces behind the French movement can best be dealt with as a whole.

its legal reserve ratio; but the foreign exchange holdings of the bank were already excessive, and the impossibility of going to the limits suggested is only too apparent. The facilitation of foreign loans on the French capital markets would have helped—but only if it drove the market to borrow at the Bank of France; and whether with credit tightening in France, the gold flow would have stopped is at least open to question. I emphasize the obstinate character of this most striking movement not only because of its historic interest, but because of the light it throws on the reserve strains to which gold standard countries may again be subjected. If strains of this sort are to be met in the future, the reserves held by central banks must be sufficient to tide them over the period of adjustment.

In dealing with the Bank of France I have brought the story down to date merely because the French development could best be considered as a whole. I shall presently be ready to give brief consideration to the more general developments of 1931 and conclude. But first let me call your attention to one other major factor of the period 1926-1930.

The United States entered this period with gold holdings very much in excess of its legal reserves. Not only did we acquire large amounts of gold as a result of the war purchases by foreign belligerents; but after the war, with other countries off the gold standard, we remained the chief market for monetary gold. When the return to the gold standard became general, we were quite prepared to lose a substantial amount of this gold to other countries. But the more important elements in our balance of payments were against it. So far as monetary action was concerned, the only way in which this balance could have been fundamentally altered would have been through a general policy of inflation here or deflation abroad. Had the easy money policy of the latter half of 1927 been heedlessly pursued through subsequent years—had unlimited funds at low rates been provided for speculation in the stock and real estate markets until the general spirit of optimism and the overflow of speculative profits in a limited field spread from point to point of our national activity—we should undoubtedly have had a more catastrophic depression in the end, but we should also undoubtedly have lost a good deal of gold in the process. For the effect of the inflation on prices and costs in this country would have altered in a fundamental fashion our merchandise balance of trade with the world. No responsible central banking authorities, however, could for a moment have contemplated such a policy. And on the other hand central banks abroad were extremely reluctant to follow an upsetting restrictive policy merely for the sake of acquiring gold. As a result the United States, which began the period with about $4,000,000,000 of central gold reserves,

still has about that much today.[8] The world as a whole has not been able to draw upon it.

The picture of the five years ending 1930 may perhaps be drawn in one sentence thus: A world, returning to the gold standard and unable to tap the surplus gold of the United States, lost the bulk of its new supplies to France, notwithstanding the fact that these new supplies were exceptionally large because of the flow from special and non-recurrent sources.

Turning now to 1931 we may note that the depression has stimulated gold production—particularly in Canada. It has also increased the difficulties of Russia in obtaining foreign exchange to pay for her imports, and gold shipments from that country have been in considerable volume. At the same time Russian State Bank reserves have increased; the excess of the two movements together over domestic production being $100,000,000 in the first ten months of 1931. More extraordinary yet is the complete reversal of the Indian movement. India, the traditional hoarder of gold, has this year been disgorging the metal under pressure of poor markets for its crops and, recently, high sterling prices for gold. Under similar influences China, also, has been shipping gold—the two countries together having contributed $100,000,000 to central gold reserves. Yet notwithstanding these additions from Russia, India, and China, amounting in all to $200,000,000, the growth of central reserves has fallen far short even of the output of the mines.

Part of the explanation lies in the industrial consumption of gold and part in a renewal of the practice of taking gold out of reserves and pledging it as collateral against loans. But by far the major cause of the comparatively small growth of central reserves is to be found apparently in a burst of gold accumulation by commercial banks and the public in the western nations, particularly in Europe. As much as $175,000,000 is apparently now being held in this way.[9] The movement was so severe last September and October that the world's central gold reserves actually fell by $100,000,000 notwithstanding heavy receipts

[8] The figure given is for central gold reserves only—*i.e.*, exclusive of gold held outside the Treasury and federal reserve banks. These central reserves were $4,000,000,000 on December 31, 1925; $4,200,000,000 on December 31, 1930; and $4,000,000,000 on November 30, 1931.

[9] This amount represents the excess of gold mined during the first ten months of the year, together with receipts from Russia, India, and China, over the increase in central gold reserves, gold of the Bank of Spain pledged abroad against loans, and gold consumed industrially. The figure would be larger were allowance not made for $75,000,000 of gold in transit between central banks at the end of October. On account of the depression, the net industrial consumption of gold is assumed to have been $5,000,000 monthly during 1931 instead of $6,250,000, the average for the period 1926-1930 (see note 3).

from the mines and other sources previously mentioned.[10] These developments in the financially mature western nations are in extraordinary contrast to the de-hoarding of gold by the Indian masses.

The outcome of all these cross currents was that in the first three-quarters of this year central gold reserves increased by $275,000,000.[11] In the same period central reserves in France increased by twice that sum. France not only took all the new gold, but drew down the stocks of other countries by an equivalent amount. We may well, however, be near the end of the heavy gold flows to France. The factors that have been chiefly responsible for these movements in recent years are no longer so strong as they were. France stabilized her currency close to the level at which her favorable trade balance had come into being; and for a time her short-term funds abroad continued to grow. But her international position has been in process of adjustment. Since 1927 each passing year has witnessed a growing excess of merchandise imports on the one hand; and on the other, a growing volume of gold purchases.

It is probable that her short-term balances abroad were sharply reduced in 1930 and have been even more heavily cut this year. Furthermore, the present economic situation in France is hardly compatible with substantial increases in the circulation except in so far as fresh hoarding materializes; and hoarding such as has been occurring in recent months cannot be more than temporary. The same may be said of the cash position of the banks. With cash in hand or at the Bank of France amounting to 30 per cent of deposits, the leading French banks are maintaining a reserve position entirely out of line with that characteristic of less disturbed periods. There has even been some evidence in recent weeks that they are building up their cash in France for lack of short-term markets abroad in which they are willing to place it. As the whole situation works out of its present abnormalties, it seems probable that the French gold movement will come to an end.[12]

Meanwhile outside of France and the United States and a few important smaller countries such as Belgium, Holland, and Switzerland, the world has pretty much been driven off the gold standard in 1931.

[10] The monthly figures published in the *Federal Reserve Bulletin* show a drop for these two months in central gold reserves of about $175,000,000; but some $75,000,000 of this represented merely gold in transit.

[11] Again allowance is made for the fact that $75,000,000 of gold was in transit between central banks at the end of October.

[12] So long as only a handful of nations remain on the full gold standard, they are likely to share the output of the mines, receipts from India, and any gold returned from public hoarding in the western nations. France should make some further acquisitions from these sources. Furthermore the Bank of France still retains about $900,000,000 of foreign exchange, even when allowance is made for the depreciation of its sterling assets. These large foreign holdings can readily be used to prevent any substantial outflow of gold. They may even be converted into gold. A sharp reversal of the French movement, therefore, is not to be expected.

As a result of the year's developments, the surplus gold of the world—*i.e.*, gold in excess of legal reserve requirements—is practically all concentrated in the countries mentioned. The very countries, which upon the general return to the gold standard will most need reserves, are those which now have depreciated or artificially controlled currencies. It is probable that their desire for an independent reserve position has been somewhat strengthened by the experiences of the last few years. They cannot depend upon tapping the important special sources of gold that have characterized those years.[13] It will be surprising if under the circumstances a number of them do not take advantage of their situation and return to the gold standard at an exchange level which will promote the acquisition of gold from those countries that now have a surplus. In doing so they would merely be following the example of France. The process would be facilitated by the fact that the countries with a surplus will not themselves alter the relation of their currencies to gold. If this policy of exchange adjustment is followed in important quarters, the major gold movements of the next five years may bear little resemblance to those of the period now past.

Walter R. Gardner

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[13] The gold recently accumulated by commercial banks and the public, mainly on the Continent, will presumably be returned to central reserves. At present this gold is largely held in countries that continue on the gold standard; and it should return in the first instance to central banks in these countries.

The problem: Does stock speculation absorb funds?

Theory versus practice: According to the orthodox theory, brokers pay for stock purchases by borrowing the difference between their customers' margins and the cost of the securities purchased. In actual practice they borrow only to meet adverse clearing house balances and cash withdrawals of customers.

A new theory: Clearing house balances cancel out in the aggregate and tend to cancel out for each individual broker. The total of brokers' loans depends therefore upon the deposits and withdrawals of customers rather than upon the volume of marginal purchases or the level of stock prices.

Conclusion: The total of brokers' loans measures the amount of credit withdrawn from speculation and furnished to legitimate business at the risk of speculators.

I. The Problem

Early in 1930 Gustav Cassel was asked to contribute for the June issue of the *Forum* an outline of his reasons for believing that the Federal Reserve Board's attempt to regulate speculation in 1929 had been the wrong policy. His reply sketched briefly the measures which the Board had taken before the stock market crash and closed with this terse statement: "The extension of official activity beyond its natural limits was dictated by the theory that stock exchange speculation drew capital from productive uses, and that a collapse of speculation set capital free and made it available for productive purposes. This theory is absolutely wrong."[1]

The members of the Federal Reserve Board in 1929 did not agree with Cassel's views on the subject, as is evidenced from their expression of concern at the "extraordinary absorption of funds in speculative loans" and their fear that this illegitimate use of bank credit might have "detrimental effects on business."[2] Neither were the politicians supporters of Cassel's theory. Senator Frazier, for example, made the charge before the Senate Committee on Banking and Currency that "instead of furnishing money to the agricultural districts that needed it they (the Federal Reserve Banks) had furnished it to Wall Street interests to gamble in stocks and bonds";[3] and President Hoover referred in November, 1929, to the "diversion of capital into the security market."[4] Among the economists we find Irving Fisher writing that "it (the use of funds for speculation) might have been entirely proper had the speculators used their own money,"[5] and Professor L. H. Haney pointing out that the use of bank credit by speculation tended "to limit the supply of credit available for business purposes."[6] A few writers[7] had suggested the

[1] *Forum,* June, 1930, p. 351.

[2] *Federal Reserve Bulletin,* February, 1929.

[3] Senate Hearings, 70th Congress, 1st Sess., Feb. 9, 1929 and March 7, 1928.

[4] *Comm. & Finan. Chronicle,* Nov. 23, 1929, p. 3261.

[5] Irving Fisher, *The Stock Market Crash and After,* 1930, p. 218.

[6] L. H. Haney, *Business Forecasting,* 1930, p. 119.

[7] H. L. Reed in *Amer. Econ. Rev.,* March, 1930, Supplement; and Calvin B. Hoover *Journal of Pol. Econ.,* December, 1929.

possibility that the funds loaned to speculators eventually seeped back to business; but this view was strenuously denied by Dr. B. H. Beckhart and others who believe that "the great increase in brokers' loans was a function of stock prices . . . . and did not reflect a new method of financing industry."[8] One economist was reported by the New York *Times* as having said that the result of the stock market crash would be the release of "some billions of capital frozen in brokers' loans" and that this would result in "general business having access to easier terms of credit."[9]

All of which seems to indicate that in the opinion of most economists speculation absorbs bank credit. In opposition to this almost universally accepted theory stands only Cassel's bare statement that "this theory is absolutely wrong." The particular problem of this study will be to examine the origin of brokers' loans, the mechanisms through which they are made to derive from the facts of brokerage practice a convincing answer to the question: Does stock speculation absorb funds?

II. Theory versus Practice

The following is the typical explanation of brokers' loans offered by most writers on the subject. Brokers' loans are loans made to stockbrokers enabling them to carry securities purchased for their customers on margin. To illustrate, suppose that a customer who has $3,000 in cash desires to purchase 100 shares of United States Steel common stock when the price is 72½. He can do this by turning his $3,000 over to the broker as margin for the purchase which will cost altogether $7,250 plus the commissions. The broker is required by the rulings of the New York Stock Exchange to pay for this purchase immediately upon delivery which in most cases will mean by 2:15 P.M. the following day. Since few brokers have sufficient capital to pay the difference between the customer's margin and the cost of the securities purchased for their clients, they are forced to depend upon loans from banks for all or a portion of the difference. In the case cited here the broker will borrow $4,250 from the bank, giving the 100 shares of stock purchased, or some other stock equally acceptable, to the bank as collateral. Such a loan would be known as a broker's loan; and millions of such transactions are responsible for the total brokers' loans figure.[10]

This explanation cannot be accepted by one acquainted with the details of brokerage practice because it is based upon an assumption that brokers execute only "buy" orders and because it fails to consider the

[8] *Proceedings* of Amer. Acad. of Pol. Science, June, 1930, p. 13.

[9] New York *Times*, Nov. 1, 1929, p. 3, col. 5.

[10] Explanations such as this will be found in the *Encyclopedia of Social Sciences*, article on "Brokers' Loans" by David Friday; Huebner, *The Stock Market*, 1926, p. 292; H. D. Dozier in an article "Bootleg Loans," *Atlantic Monthly*, June 1929; Kirshman, *Principles of Investments*, 1924, p. 781.

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1st CK____ 2nd CK____ (Night Clearing Branch.) 2nd CK____

New York, ______ 19__ Office Address ______ Clearing sheet of ______

Receive From	Share	Security (use N.Y.S.E. symbols)	Price	NB co	Value	Deliver To	Share	Security (use N.Y.S.E. symbols)	Price	NB co	Value
1. Broker A	1 00	X	72½		7250 —	51. Broker G	2 00	AC	85		17000 —
2. Broker E	2 00	AC	86⅜		17275 —	52. Broker D	1 00	GE	33¼		3325 —
3. Broker C	1 00	ULA	14¼		1425 —	53. Broker I	3 00	NA	44		17762 50
4. Broker H	3 00	GE	30¾		9225 —	54.					
14.						64.					
15.						65.					
16.						66.					
17.						67.					
18.						68.					
19.						69.					
20.						70.					
21.						71.					
22.						72.					
23.						73.					
24.						74.					
25.						75.		Check for			1087 50
26.						76.					
		Total			39175 00			Total			39175 00

Fig. I

fact that some broker had to sell the stock which was purchased. The following describes more accurately a broker's procedure. When an order to buy 100 shares of United States Steel stock at 72½ for a customer is received, it is transmitted to the floor of the exchange for execution. When the broker receives notice of its execution, he does not hurry to the bank to borrow the $4,250 but rather has his bookkeeper make an entry on the clearing house blotter similar to that illustrated on line 1 of Figure I. During the course of the day he will receive and execute orders for other clients, some of these to buy, some to sell. These will also be entered on the clearing house blotter (see entries shown on lines 2, 3, 4, 51, 52 and 53 of Figure I). After the market has closed for the day, this sheet informs the broker that he must pay the clearing house $35,175, that it will pay him $34,087.50 and that it will only be necessary for him to write a check for $1,087.50 in order to make a settlement for all the transactions of the day. Since this amount is less than the $3,000 deposited by the customer, no bank accommodation will be needed by the broker—in fact he will be able to reduce his bank indebtedness by $1,912.50. According to the orthodox theory, however, the above purchases if made on a 50 per cent margin would require a bank loan of $17,588.

This exposition of brokerage practice, short as it is, indicates the necessity of constructing a more accurate theory of brokers' loans before any legislative or bank policy is formulated for purposes of controlling speculation.

III. A New Theory

A great many of the erroneous conclusions associated with the orthodox theory of brokers' loans arise from the practice of attributing to the total brokers' loans figure characteristics which properly apply only to the loans of an individual broker. It is often stated, for example, that a bull market increases brokers' loans because of the prevalence of buying orders over selling orders. Nothing could be further from the truth; for, while it is possible but not probable that the buying orders executed by any one broker may exceed the selling orders executed by him, yet when the activities of brokers are considered in the aggregate it is an axiomatic truth that no more orders "to buy" can be executed than orders "to sell."

The effect of the various types of stock market transactions upon the total of brokers' loans is best explained through the use of hypothetical transactions carried on between a number of imaginary brokers. Since the same results are obtained when these transactions involve two brokers as when they involve three, four or a hundred brokers, and since at the same time the difficulty of following the transactions is lessened as the number of brokers becomes smaller, the illustrative cases which follow

will assume that all transactions take place between two brokers who will be designated respectively by the letters "A" and "B." Sooner or later these brokers will require bank accommodation; and, when this time comes, the limit of their credit will be determined by the size of their average bank balance. It will be desirable therefore that they each maintain a daily bank balance large enough to give the requisite credit standing. Assume that a balance of $100,000 is sufficient for each and that half of this sum is invested by Broker "A" and by Broker "B" individually, the balance being borrowed from the banks at call.[11] At the beginning of the illustration, then, brokers' loans will stand as follows.

Bank loans to Broker "A"	$50,000
Bank loans to Broker "B"	50,000
Total brokers' loans	$100,000

Hypothetical Case I

Assume that Broker "A" receives a check for $23,000 from Customer "a" and that Broker "B" receives a stock certificate for 1,000 shares of General Electric stock from Customer "b," but that no order to buy or sell securities accompanied either of these deposits. What then is the effect upon brokers' loans of these two transactions when all the other dealings of the two brokers for this day are assumed to balance

[11] It makes no difference to the illustration whether these or other assumptions are made since the only purpose in making them is to establish some point from which to depart. In actual practice the size of the balance which a broker would desire to keep would be determined by him after consideration of the following two factors:

(a) The greatest probable adverse clearing house balance.

(b) The possibility of customers' withdrawals exceeding customers' deposits.

It is evident that a broker who has but one customer stands a greater chance of having consecutive adverse clearing house balances than one with a thousand customers, due to the fact that while one customer might continue to buy without selling or to sell without buying for a considerable period of time, a thousand customers are certain to have among them some who wish to buy and some who wish to sell. Hence the larger the number of customers and the greater the volume of their transactions, the more likelihood exists that the amount of a broker's purchases will equal the amount of his sales and consequently the smaller need be his clearing house balances. Thus a broker with the larger clientele need not keep as large a bank balance for *purposes of meeting adverse clearing house balances* as the broker with a smaller clientele.

In a like manner the deposits of customers might be expected to balance the withdrawals of customers except that as prices of securities rise and paper profits of traders grow there is a tendency for the withdrawals of funds to be encouraged by profit taking and for deposits to be discouraged by the higher prices. Hence a broker will maintain a balance sufficient to take care of his average needs in this respect and depend upon loans from his banker for meeting temporarily excessive withdrawals. The New York Stock Exchange requires that the maximum borrowings of its members bear a relationship to the investment of the broker. Banks also have a custom of deciding the maximum loans which they will make to their customers by reference to the customers' average bank balance. It is thus good business policy for a broker to maintain at all times a generous minimum balance.

out, that is, the amount of "buy" orders of each exactly equals the amount of "sell" orders so that neither will pay nor will receive cash from the clearing house? It is quite evident that Broker "A," who before the receipt of Customer "a's" check carried a bank balance of sufficient size to care for his needs, can use the $23,000 received from Customer "a" to reduce his bank indebtedness. On the other hand, Broker "B's" position has not been altered by Customer "b" depositing 1,000 shares of General Electric stock. The situation can be summarized thus:

	Broker "A"	Broker "B"	Total brokers' loans
Initial loans	$50,000	$50,000	$100,000
Loans paid off	23,000	0	23,000
Balance of bank loans	$27,000	$50,000	$77,000
Due to customers	23,000	(1,000 shares of stock)	
Net indebtedness	$50,000	$50,000	

Principle I. Deposits of cash by customers to the credit of their accounts with brokers result in a decrease in the total of brokers' loans.

Principle II. Deposits of securities by customers to the credit of their accounts with brokers do not affect the total of brokers' loans.

Hypothetical Case II

Customer "a" now orders Broker "A" to buy at the market price 1,000 shares of General Electric stock and Customer "b" orders Broker "B" to sell at the market price 1,000 shares of General Electric stock. The two orders are executed at a price of 32.

Broker "A" must pay $32,000 to Broker "B" for the 1,000 shares which will be delivered to him by Broker "B." Since Broker "A's" bank account now stands at the minimum, he will borrow these funds at call. Broker "B," however, will use the $32,000 to reduce his bank indebtedness since he has no immediate need of the funds. When these transactions have been cleared, the result will stand as follows:

	Broker "A"	Broker "B"	Total brokers' loans
Loans (as at end of case I)	$27,000	$50,000	$77,000
New borrowings	32,000		32,000
Loans paid off		32,000	32,000
Balance of bank loans	$59,000	$18,000	$77,000
Due to customers	(1,000 shares of stock)	32,000	
Due from customers	9,000		
Net indebtedness	$50,000	$50,000	

Principle III. Purchases and sales of stock do not affect the total of brokers' loans, since the sale decreases the total to the exact extent that the purchase increases it.

Hypothetical Case III

In this case it will be assumed that Customer "b" withdraws $15,000 of the amount to his credit in his account with Broker "B." Since the bank balance of Broker "B" is already at the minimum, the withdrawal of $15,000 by customer "b" will make it necessary for Broker "B" to increase his bank indebtedness by this amount. The net effect of this transaction on the total of brokers' loans, therefore, will be to increase this total by an amount equal to the customer's withdrawal. A summary of the situation after the transaction follows:

	Broker "A"	Broker "B"	Total brokers' loans
Loans (as at end of case II)	$59,000	$18,000	$77,000
New borrowings		15,000	15,000
Loans paid off			
Balance of bank loans	$59,000	$33,000	$92,000
Due to customers	(1,000 shares of stock)	17,000	
Due from customers	9,000		
Net indebtedness	$50,000	$50,000	

Principle IV. A withdrawal of a customer's credit balance increases the total of brokers' loans by the amount withdrawn.

Hypothetical Case IV

It will next be assumed that Customer "a" withdraws 100 shares of General Electric stock from his account. He will be permitted to do this provided his margin is above the minimum requirement. It is evident, however, that this act can have no effect upon the total of brokers' loans for it does not affect cash in any way.

Principal V. Withdrawals of stocks by customers have no effect upon brokers' loans.

Hypothetical Case V

Suppose now that Customer "b," who believes that the market price of General Electric stock will shortly decline, orders Broker "B" to sell "short" 300 shares, and that Customer "a" who believes the market is due for a rise, orders Broker "A" to buy for his account an additional 300 shares of General Electric, and that these orders are executed at a price of $35.

Broker "B" will receive $10,500 in cash from Broker "A" but must deliver to Broker "A" 300 shares of stock which he (Broker "B") does not hold. Broker "B" will secure this stock for delivery by borrowing it from some broker who is "long of it." Since our hypothetical transactions are limited to dealings between Broker "A" and Broker "B" these shares will be borrowed by Broker "B" (through the medium of a third broker perhaps) from Broker "A." The effect is the same, however, whether the stock is borrowed from Broker "A" or some third broker.

Broker "B," in order to obtain the stock for delivery, must make a cash loan to the broker from whom the stock is borrowed equal to the market value of the securities borrowed. Thus Broker "A" will borrow $10,500 from Broker "B" and use these funds to pay Broker "B." On the other hand Broker "B" will borrow the 300 shares from Broker "A" in order to deliver the stock to Broker "A." When these transactions are cleared, the following will be the result:

	Broker "A"	Broker "B"	Total brokers' loans
Loans (at at end of case III)	$59,000	$33,000	$92,000
New borrowings			
Loans paid off			
Balance of bank loans	$59,000	$33,000	$92,000
Due to brokers	10,500	(300 shares of stock	
Due from brokers	(300 shares stock)	10,500	
Due to customers	(1,300 shares stock)	27,500	
Due from customers	19,500	(300 shares stock)	
Net indebtedness	$50,000	$50,000	

In actual practice it will not be necessary for the two brokers to execute these somewhat complicated maneuvers. Instead, Broker "A" will ask the clearing house to receive for him the 300 shares which he purchased and to pay the selling broker $10,500. He will also request the clearing house to deliver the 300 shares to the broker to whom he has agreed to loan them and to receive for him the $10,500 which this broker agreed to loan him. These requests of Broker "A" will appear on his clearing house blotter as follows:

Receive from		Value	Deliver to		Value
Broker "B"	300 shares	$10,500	Broker "B"	300 shares	$10,500

Hence, as far as Broker "A" is concerned, he will neither deliver nor receive anything from the clearing house. In a like fashion Broker "B" will request the clearing house to receive the stock which he has borrowed from Broker "A" and to loan to Broker "A" the $10,500 which Broker "A" will pay into the clearing house for the 300 shares which Broker "A" purchased from Broker "B." Hence Broker "B" also will neither pay anything into nor receive anything from the clearing house.

Principle VI. **Short selling in itself in no way affects the total of brokers' loans or any of the conclusions previously reached.**

Hypothetical Case VI

This case will begin with the situation as it was at the close of Case III.

Situation at Close of Case III

	Broker "A"	Broker "B"	Total brokers' loans
Balance of bank loans	$59,000	$33,000	$92,000
Due to customers	(1,000 shares of stock)	17,000	
Due from customers	9,000		
Net indebtedness	$50,000	$50,000	

It will be then assumed that the value of General Electric stock rises to 50, at which price Customer "a" orders Broker "A" to sell his 1,000 shares and Customer "b" orders Broker "B" to buy for him 1,000 shares. After the execution of these orders, Broker "B" will pay to Broker "A" $50,000, and will increase his bank indebtedness by this amount. On the other hand, Broker "A" will use the money to reduce his bank indebtedness so that the situation when finally cleared will stand as follows:

	Broker "A"	Broker "B"	Total brokers' loans
Loans (as at beginning of case)	$59,000	$33,000	$92,000
New borrowings		50,000	50,000
Loans paid off	50,000		50,000
Balance of bank loans	$ 9,000	$83,000	$92,000
Due to customers	41,000	(1,000 shares of stock)	
Due from customers		33,000	
Net indebtedness	$50,000	$50,000	

Principle VII. An increase in the market price of securities does not of itself affect the total of brokers' loans.[13]

Hypothetical Case VII

After the rise described in the preceding case, it will be assumed that the price of General Electric drops to 20, at which price Customer "b" sells his 1,000 shares to Customer "a," taking as a result a 30 point loss. Broker "A" will have to pay Broker "B" for this stock and will therefore increase his bank loans by this amount, while Broker "B" will use the funds to decrease his bank loans. The situation when cleared will stand thus:

	Broker "A"	Broker "B"	Total brokers' loan
Loans (as at end of case VI)	$ 9,000	$83,000	$92,000
New borrowings	20,000		20,000
Loans paid off		20,000	20,000
Balance of bank loans	$29,000	$63,000	$92,000
Due to customers	21,000		
Due from customers		13,000	
Net indebtedness	$50,000	$50,000	

Principle VIII. A decrease in the market price of securities does not of itself affect the total of brokers' loans.

If now the various types of stock market transactions are grouped according to whether they do or do not affect the total of brokers' loans, it will be discovered that only deposits and withdrawals have any affect upon

[13] Compare with statement of orthodox theory that "the great increase in brokers' loans was a function of stock prices," in the *Proceedings* of Amer. Academy of Pol. Science, Jan., 1930, p. 13, and statement in Report of the President of the N.Y. Stock Exchange that changes in the total of brokers' loans depends "upon changes in the prices of listed securities," 1929-30, p. 45.

the total. Of these two, only withdrawals increase the total of brokers' loans.

I. *Factors which do not affect brokers' loans in the aggregate.*
- (a) Deposits of securities with brokers (Principle II)
- (b) Purchases and sales of stock (Principle III)
- (c) Withdrawals of stock (Principle V)
- (d) Short selling (Principle VI)
- (e) An increase in stock values (Principle VII)
- (f) A decrease in stock values (Principle VIII)

II. *Factors which affect brokers' loans in the aggregate.*
- (a) Deposits of cash (Principle I)
- (b) Withdrawals of cash (Principle IV)

In a situation such as existed in 1929, when the Dow, Jones average of stock prices stood above 300, the accounts of speculation contain huge paper profits. If traders begin to grow cautious and to withdraw funds from their brokerage accounts, brokers' loans will begin to mount. Balances withdrawn from the market can no longer be used to purchase stocks. Consequently stock prices will begin to decline unless new deposits offset the withdrawals. If traders continue to withdraw their holdings, brokers' loans will mount higher and higher and stock prices will decline further. Financial periodicals and professional traders will speak of this as distribution by strong hands to weak hands.

Actually, however, the increased brokers' loans are the result neither of the buying of the weak hands nor of the drop in the prices but of the withdrawal of funds by speculators who have decided to get out from under. As prices continue to drop, margins become impaired and many traders are sold out. To be sold out means only that the broker transfers the purchases of a customer with an impaired margin to the account of one whose margin is sufficient to safeguard the broker's interest.[18] Should there be no other customer whose margin is sufficient to secure the broker's risk, a further concession in the market price of stocks is necessary to attract new funds. There is of course always some level of security prices which will attract new purchasers. If this level is high enough, the amount of funds attracted will more than equal the amount which the retiring customer owes to the broker. If so, the broker will not lose, and the sold out customer may even salvage a small amount of his funds. If the price level sinks below the amount of the customer's obligation, then the broker stands to lose the difference. Only when the level of prices sinks so low that the incoming funds together with the total assets of the broker are insufficient to cancel the amount of the bank's loans will the bank lose from the liquidation. Generally, however, a crash of stock values causes many speculators to bolster their accounts with additional deposits of cash, and to the extent that this takes place brokers' loans decline.

[18] This result is accomplished of course through the medium of a sale.

One might describe the process in this fashion. Speculators pour funds and stock certificates into the market to be traded about, funds for stock, stock for funds, and stocks for stocks. During this process the funds retain their original face value, but the quoted values of the certificates rise or fall with each exchange. To illustrate, let it be assumed that the value of funds placed in the market at some given time is \$100,000 and that the value of stock certificates deposited there is also \$100,000. After a period of brisk stock trading the value of the funds will remain \$100,000 but the exchange value of the stock certificates will have risen, let us say, to \$400,000. This means then that the total value of stock certificates and cash funds has risen from \$200,000 to \$500,000 and that traders have paper profits of \$300,000, one-fifth of which is represented by funds and four-fifths of which is represented by stock values.

If now speculators would be willing to withdraw their profits one-fifth in cash and four-fifths in stock certificates, the total of brokers' loans would not be expanded more than the original deposit of funds reduced it. However, if any doubt arises as to the probable continued rise in the exchange value of stock certificates, all speculators will withdraw their profits in cash. This would be impossible, of course, were it not for the fact that there exists an outside party who is willing to advance \$300,000 of necessary funds if some new speculator will advance \$100,000 to guarantee the outsider against a loss from a shrinkage in value of the certificates. This outside party is the bank. Thus, if speculators withdraw the total value of their account (\$500,000) in funds, the source of these funds would be as follows:

Withdrawn by speculators	Source of funds
\$100,000 funds originally deposited	\$100,000 deposited by old speculator
100,000 original value of stock deposited	100,000 deposited by new speculator
300,000 profits from speculation	300,000 loan to brokers by banks
\$500,000	\$500,000

This would leave in the market certificates having a value of \$400,000 as collateral for the \$300,000 loan of the bank. Brokers' loans are thus a fund of purchasing power out of which speculators draw real funds in exchange for stock values.

IV. Conclusion

Brokers receive cash from two sources, their customers and the clearing house. Their cash payments are likewise made to customers and to the clearing house. When the daily receipts of brokers exceed their daily payments, the excess is used by them to reduce bank indebtedness. In a like manner, when their receipts fail to equal their payments they borrow the difference from the banks. Payments to and receipts from the clearing house tend to balance for any one broker and must balance

for brokers considered in the aggregate; hence, the total of brokers' loans is not affected by clearing house transactions. During a period of relatively stable stock prices the deposits and withdrawals of customers will also tend to balance, but after an extended "bull market" the presence of paper profits in the accounts of a great many traders will create a tendency for withdrawals to exceed deposits. Hence a rise in the total of brokers' loans can ordinarily be expected to accompany, or to follow, a rise in stock prices. A decline in market prices and a consequent withdrawal of profits by short-sellers would also cause a rise in brokers' loans were it not for certain forces working against this result. A drop in prices makes it necessary for marginal traders who are playing the "long" side of the market to deposit more funds. Such deposits reduce brokers' loans. Since the majority of traders are on the "long" side, the total of these deposits will exceed that of the withdrawals of profit by successful "shorts" . . . hence the total of brokers' loans can ordinarily be expected to decline following a drop in market values.

Since increases in the total of brokers' loans represent an excess of customers' withdrawals over deposits, it follows that the huge brokers' loan total of 1929 indicated the amount of funds withdrawn from speculation rather than the amount diverted into speculative channels for purposes of aiding stock gamblers to trade on margin. Whether these loans also deprived legitimate business of needed funds depends upon the uses to which the funds were put by those who made the withdrawals. If, for example, the credit secured from the banks through brokers' loans were converted into cash and buried, there would be reason for suspecting that this credit was no longer available to business. However, these funds, when not hoarded, must be saved or spent and in either case reach business men through the sale of consumers' goods or through loans made by banks. Hence, in the final analysis, the total of brokers' loans measures the amount of credit furnished to legitimate business at the risk and call of speculators. The classification of such loans as brokers' loans merely means that customers of brokers will eventually be called upon to meet the obligations created by the retiring speculators and does not indicate that the funds so loaned are being used in speculation.

Wilford J. Eiteman

Albion College

COMMUNICATIONS

Academic Incomes and Planes of Living

When in 1927 Professor Peixotto published her study of incomes and expenditures of the University of California faculty,[1] she believed the California findings were representative of conditions prevailing among other college faculties. In 1928, the Yale chapter of the American Association of University Professors brought out a somewhat less thorough-going analysis of incomes and living costs of the faculty at Yale.[2] Both of these studies expressed and were in part stimulated by a dissatisfaction with academic incomes, as inadequate to meet the strain of academic planes of living.

In the spring of 1931 schedules of incomes and expenditures were collected from 75 faculty families of all academic ranks at Iowa State College. No question of adequacy of income came into the study, either as motive on the part of the investigators or as expression of opinion on the part of the faculty. Classifications were made as comparable as possible with those used in California. The average size of families, 3.5 persons, was the same. The results show certain surprising similarities to and some no less striking differences from the earlier study.

The average income reported at Iowa State College was $4,106.79, at California $5,343.50.[3] Medians in the two cases were $4,180 and $4,784.17.[4] The average basic salary, $3,411.64, at Iowa State College, included remuneration for summer school in 31 cases; average salary actually comparable with the nine months' salary of most colleges would be about $3,200, or 78 per cent of total net income. The average salary was $3,375.76, 63 per cent of total net income at California.[5]

At Iowa State College, earnings of faculty over and above regular salary amounted to an average of $320.14; as 31 of the group, however, received a regular salary in which payment for summer school was included, it is necessary to add to their additional earnings the portion of salary properly pro-rated to summer school in order to compare their situation correctly with that of members of other faculties. This would make the average additional earnings of the whole group equivalent to about $500. Income from property was $270.96; from earnings of helpmates, including returns from boarders and lodgers, $95.86; from miscellaneous income, $8.19.

Although the average amount of faculty earnings in addition to salary was higher at California than at Iowa State College, the proportion of faculty having such earnings was higher at the latter institution—89 per cent as compared with 74 per cent[6] at California. The proportion having income from property was 67 per cent at California,[7] 64 per cent at Iowa State College, 66 per cent at Yale.[8] Forty per cent of faculty helpmates at California

[1] J. B. Peixotto, *Getting and Spending at the Professional Standard of Living*, New York, 1927.

[2] Y. Henderson and M. R. Davie, *Incomes and Living Costs of a University Faculty*, New Haven, 1928.

[3] Peixotto, *op. cit.*, p. 105.

[4] *Ibid.*

[5] *Ibid.*

[6] Peixotto, *op. cit.*, p. 104.

[7] *Ibid.*

[8] Henderson and Davie, *op. cit.*, p. 38.

contributed financially to family support,[9] 29 per cent of those at Iowa State College. All the California faculty,[10] 96 per cent of the Iowa faculty, and 91 per cent of the Yale faculty[11] had some income supplementary to a nine-months' salary.

Even more thought-provoking is an analysis and comparison of faculty situations in connection with expenditures. The following are the percentages spent by each whole group for the five major expenditure classifications at Iowa State College and at California.[12]

	Iowa State College	*Univ. of California*
Food	14.1	16.2
Clothing	7.6	8.8
Shelter	15.7	15.8
House operation	12.8	13.5
Miscellaneous, including savings	49.8	45.6

The first thing that strikes the student of consumption is that Engel's generally accepted dictum is not borne out in this comparison. The group with the larger total expenditures spent relatively more, not less, than the other for food, and less, not more than the other for miscellaneous items. An adjustment of these figures to the differences in cost of living in the United States between the year of the California study, 1922, and the year of the Iowa study, 1930, would lessen but by no means remove this contrast.

An examination of differences in proportions expended for the minor items coming under House Operation and Miscellaneous (Table I) shows that for most items these percentages run very close together. Hence we are the more struck by the few that notably diverge. The Iowa group used 3.0 per cent of its expenditures for fuel, the California group 1.9 per cent[13]; but this difference is explainable by climate. The noteworthy contrast under House Operation expenditures is Service, to which the California group gave 4.2 per cent[14] and the Iowa group only 1.3 per cent.

Among Miscellaneous Expenses, the costs of Recreation and Health were relatively greater in the California group, 5.2 per cent and 5.7 per cent,[15] as against 4.3 and 3.2 per cent in Iowa. The most striking contrast of all, however, was in Insurance and Savings. All the faculty put aside something for insurance or savings at Iowa State College, 96 per cent[16] of the California faculty, but the proportions of income so allocated differed very much. The Iowa group gave 8.5 per cent to insurance and 13.6 per cent to savings; the California group, 13.1 per cent for the two together.[17] At Yale, where incomes were larger than at California, 90 per cent of the faculty had insurance, cash savings, or investments; and for this 90 per cent the proportion of total income used was about one-tenth.[18]

[9] Peixotto, *op. cit.*, p. 104.

[10] *Ibid.*, p. 78.

[11] Henderson and Davie, *op. cit.*, p. 39.

[12] Peixotto, *op. cit.*, p. 123.

[13] Peixotto, *op. cit.*, p. 123.

[14] *Ibid.*

[15] *Ibid.*

[16] *Ibid.*, p. 124. There is one difference of method of classification here which would not, however, materially affect the result. In the Iowa study, capital payments toward purchase of a home were included as investment, but not in the California study. *Ibid.*, p. 188.

[17] *Ibid.*, p. 123.

[18] Henderson and Davie, *op. cit.*, p. 60.

TABLE I

AVERAGE PROPORTION OF TOTAL EXPENDITURES FOR THE VARIOUS SUB-ITEMS OF HOUSE OPERATION AND MISCELLANEOUS AMONG 96 FACULTY FAMILIES AT THE UNIVERSITY OF CALIFORNIA[1] AND AMONG 75 FACULTY FAMILIES AT IOWA STATE COLLEGE

Items	Families reporting expenditure		Average proportion spent by entire group	
	Iowa State College	University of California	Iowa State College	University of California
House operation:				
Fuel and heat	74	96	3.0	1.9
Light	71	80	1.0	.7
Ice	64	28	.4	.1
Furniture and furnishings	71	93	3.7	4.2
Telephone and telegraph	73	94	.7	.7
Household laundry and supplies	73	71	1.1	.7
Housecleaning supplies	64	66	.3	.2
Personal cleaning supplies	71	91	.5	.5
Stationery and stamps	72	88	.3	.2
Garbage disposal	43	84	.1	.1
Service	60	86	1.3	4.2
Flowers and gardening	61	—	.3	—
Other	—	9	—	.3
Miscellaneous:				
Education	73	96	3.9	3.0
Health	72	95	3.2	5.7
Recreation	74	96	4.3	5.2
Automobile	67	55	7.6	7.0
Professional expenses	68	93	1.4	3.0
Cash payments to dependents	19	34	.9	1.6
Church	54	52	1.2	.6
Charity	63	90	.6	.7
Gifts	67	94	1.6	2.3
Tobacco	24	61	.3	.4
Associations	—	94	—	1.4
Incidentals	69	95	2.1	1.6
Taxes	51	—	.2	—
Insurance	74	—[a]	8.5	—[a]
Savings	62	90[a]	13.6	13.1[a]

[a] Insurance and savings combined.

[1] The California figures are from Peixotto, *op. cit.*, pp. 123, 124, 184.

Our comparison is suggestive along several lines. In the first place, it shows us that members of the same profession may have practically the same planes of living in most respects and yet notably diverge in respect to a few items. It leads us to inquire into the reasons for difference, one of which, in the present instance, is fairly obvious. The Iowa group was under less pressure than the California group for certain elements of conspicuous consumption. This pressure would be more likely to exist where professors, their wives and children are constantly thrown with families of higher income groups in other professions and in business, as at Berkeley and New Haven, than at an institution where the faculty itself largely sets the approved standard of living for the community, as at Ames, Iowa. Then, too, at California and at Yale there were a few faculty families with relatively large incomes from investments. The range of incomes was narrower, the distribution more equal, at Iowa State College.

In the second place, there is a possible correlation between dissatisfaction with income and certain particular aspects of consumption. It would seem that the pressure of conspicuous consumption might be especially provocative of dissatisfaction with income.

In the third place, a rather profound question emerges, that of testing the social adequacy of incomes. Even if one is able to demonstrate an income as inadequate to meet the requirements of a given group, as the investigators believed they did at Yale and California, that is certainly not to endow the "approved" scale with social justification. Are these approved standards merely temporary and local, or do they have a deep-seated validity and a wide social application? To answer this difficult question we must get at the fundamental issues at which the standards of similar people diverge and the results that follow this divergence. In the present comparison, as one instance, to what extent are we prepared to ascribe a social value to conspicuous consumption in its various degrees of refinement? Or, as a second instance, to what extent in actual practice ought we to justify the effective desire of accumulation?

In the past, studies of scales of living have emphasized problems of distribution of income but have not gone very deeply into problems of consumption. We need more income and expenditure studies presented in such form that the amounts and proportions of separate items among different groups may be accurately compared. Only by this means will certain subtle problems of consumption come to light.

Elizabeth E. Hoyt
Viola C. Meints

Iowa State College

State Unemployment Insurance: Further Comment

In commenting upon the article of Mr. Carter Goodrich on "State Unemployment Insurance," which appeared in the September issue of the American Economic Review, Mr. Burnham P. Beckwith (December issue, p. 692) disagrees with the author's statement that "any system of unemployment insurance which lays aside reserves during good times and releases them as purchasing power in the time of depression tends to mitigate the severity of the business cycle . . ." (p. 415).

Mr. Beckwith's view is that the sale of securities in which the insurance reserves are invested, made during depression for the purpose of obtaining funds to pay unemployment benefits, would absorb savings which "in the absence of the insurance scheme . . . would have been used to purchase new issues of securities. The chief effect of the unemployment insurance system, therefore, is to divert new savings from productive investment to doles or benefits for the unemployed. . . .

"Indeed, since the sale of the securities in the reserve of the insurance system diverts funds from productive investment to unproductive benefits, it actually decreases business activity. . . . Undoubtedly unemployment insurance mitigates the suffering due to the business cycle. But, since it decreases productive investment, it actually enhances the objective business cycle."

It is also contended that the sale of securities held in the insurance reserve could not stimulate the demand for commodities by causing expansion of bank credit, for the reason that in times of severe depression investors probably purchase securities outright instead of on margin.

In criticism of the views expressed by Mr. Beckwith, I should like to make the following observations:

(1) In time of business depression investors are unwilling to back new ventures (on a basis profitable to the promoters) and comparatively few new security issues are floated. The great abruptness of security market fluctuation indicates that investor psychology, to a much larger degree than change in the supply of savings available for investment, is the principal factor involved; lack of confidence, not lack of resources, is the great hindrance to resumption of business activity. It seems improbable that an appreciable proportion of the sales of gilt-edge securities held in the reserve fund of an unemployment insurance system would be made to persons who would otherwise have invested their savings in new business ventures.

(2) Bank loans to investors who purchase securities on margin do not constitute the only method of expanding bank credit and thereby stimulating business through inflation. For example, the banks themselves might buy the securities and expand credit, subject to the reserve limitations prescribed by banking law.

There is little ground for holding that a system of unemployment insurance would "decrease productive investment" and "enhance the objective business cycle." On the contrary there is excellent reason for thinking that by tempering the decline of consumer purchasing power it would slightly mitigate the severity of the business cycle; and as for "productive investment," one wonders if the reduction of malnutrition and suffering which a comprehensive system of unemployment insurance would accomplish might not properly be considered as an investment of the very highest order of productivity.

Robert S. Field

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REVIEWS AND NEW BOOKS

General Works, Theory and Its History

Modern Economic Society. By Sumner H. Slichter. (New York: Holt. 1931. Pp. xii, 909. $4.00.)

General treatises otherwise well calculated to vitalize elementary instruction in economics may easily miscarry through breaking too sharply from prevalent doctrines and methods. This danger Professor Slichter appears to have avoided in his genuinely commanding "effort to reduce the lag between the specialized and monographic work and the more generalized descriptions of our industrial system." No very painful readjustments need be made by the neo-classicist who uses this book as a text; for, however changed the edifice, the old foundations and framework are largely intact. But he will doubtless be struck by the author's persistence in penetrating the hypotheses on which abstractions rest, in recording the influences of policies and practices and institutions, in appraising their effects, especially their unfavorable consequences, and in analyzing the requirements of greater well-being. He will find exceptional richness of material, a refreshing awareness of these post-war years, and a style that, devoid of ornament, is agreeable throughout. But for some of the familiar qualities of the textbook he will look in vain, possibly with regret.

Of four parts into which the book is divided the first, in two chapters, raises the issue of control and introduces various elementary concepts, including some from accounting. The nine chapters of Part 2 present "some basic characteristics of the existing economic order," which are, in sequence: free private enterprise, capitalistic organization, machine industry, specialization, large-scale business, the corporation and other forms of association—including a taste of such works as *Main Street and Wall Street*—the organization of labor, the speculative nature of production, and credit economy. Part 3, in nineteen chapters, analyzes the "operation" of the order, including price determination, competitive and otherwise, business cycles, price levels, the consumer's position, distribution, with particular emphasis of the labor bargain, public finance, and international economic policies. A final part comprises a single chapter offering "constructive suggestions." While this recital may suggest few departures from customary organization, a good many do appear as one searches in vain for specific points under the most promising chapter headings, and then finds them, perhaps with the aid of the excellent index, in quite remote locations. Dominant concerns of the author, such as overhead costs and the position of laborer and consumer, reappear repeatedly throughout the book.

Buying and selling are described as playing the "pivotal rôle" in economic society, and price determination receives due emphasis. After

presenting the laws of supply and demand, one price, and marginal utility in about the usual manner, though with labels characteristically omitted, the author elaborates exceptionally the matter of price stability, notably in analyses of elasticity of supply as influenced by fixed costs and unused capacity, and of the cumulative features of price movements. The view urged elsewhere that consumers' choices largely result from producers' selling policies, does not enter the price analysis. Cost is seen to govern price in the long run through influencing new capital commitments; but numerous forces operate to bring about overexpansion and production at a loss. These, and the basis and limitations of cutthroat competition, are realistically discussed. Cost variation with demand changes is less effectively handled, however; and diminishing returns, or "the law of proportion of factors," receives a scant three pages, in which, incidentally, a good verbal statement of proportionality is illustrated with a differential output table. Throughout the competitive price analysis the rigors of the perfect-market assumption are sensibly moderated; bargaining is assigned a considerable latitude; and, subsequently, monopoly, custom, and government control are elaborated as basic price-making forces. A very substantial chapter on public-utility rates deals even with the vexed depreciation issue; and is followed by a timely discussion of the price-fixing activities of the Federal Farm Board.

One misses the usual description of mono- and bimetallic monetary systems as introduction to the exchange mechanism; but the chapter on credit economy proceeds, in exceptionally well-rounded manner though with inadequate procedural detail, to tie in the institution of bank credit with the whole economic process. The chapters on business cycles and price levels are unusually full for a general treatise, but no brief statement can convey their quality. The international economic problems treated are tariffs, raw-material controls, post-war currency stabilization, reparations, and coöperation in checking the fall of prices. In analyzing distribution, the author has treated wages both as incentive and as income, with an explanation running in terms of a highly qualified productivity theory. The effect of unions on wages is represented as uncertain. The rewards of capital and of enterprise are fully discussed; but no separate recognition is given such peculiarities of the supply of land as are suggested in the treatment of tax incidence. Whether labor and capital are better rewarded when employed entrepreneurially than when hired out to others is regarded as dubious.

To those who hold that the mere understanding of economic phenomena is an inadequate objective in elementary instruction, the book should make its strongest appeal, for the economic pathologist and physician are everywhere present in the authorship. The imperfections and possibilities of control are discussed in the first chapter; the third and fourth, in ex-

plaining the guidance, both of the total economy and of the single concern, under free enterprise and competition, expound the basic defectiveness of markets, notably the labor market, the failures and wastes of competition, and the incompetence of consumers in their directive capacity and as judges of their own interests. Later chapters treat these matters in detail, except that the American anti-trust policy is denied the consideration one might expect. The chapters on business cycles, price levels, and international economics are largely devoted to questions of policy; and the concluding chapter, after several less sweeping proposals, presents, not too optimistically, the idea of a comprehensively planned economy, and the need of consumer and labor representation in the government of industry.

In rescuing real issues, as Professor Slichter has, from their frequent plight as mere illustrative aids in the exposition of theory, there is substantial merit; but any considerable subordination of principles to the purposes for which they are deduced may readily create difficulties from the teaching standpoint. If some writers have erred in providing the student with a load of sweeping abstractions which, as tools, he has little notion how to use, the author in this instance has given an admirable demonstration of fine-tool manipulation, leaving basic instruments often inadequately explained. At many points—as examples, we may note the reduction to footnotes of the explanations of foreign exchange rates and the invisible items in the balance of payments—the brevity of treatment places an exceptional burden upon the teacher, or requires resort to supplementary assignments which, because of peculiarities of organization, are difficult to integrate. Attention is not often called directly to common errors in economic thinking, principles are seldom labeled, and major and qualifying propositions in the rather long sections into which the chapters are divided are not always plainly distinguished and correlated. A collection of problems which has been published separately should mitigate these deficiencies. But, for use as an elementary text, the volume would probably gain if some discussion of policy were sacrificed for a more careful spelling out of elementary ideas, and more teaching apparatus were introduced. But if such a work as this cannot be used effectively with the ordinary run of beginning students, it will be a matter of deep disappointment to this reviewer; for there is perhaps no other single book that can offer so much toward a genuinely useful appreciation of the present economic scene.

Shorey Peterson

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NEW BOOKS

Bowers, E. L. and Rowntree, R. H. *Economics for engineers.* (New York: McGraw-Hill. 1931. Pp. viii, 490.)

The authors say of this volume that it is concise; that it includes a treatment of marketing, investments, and insurance, as economics textbooks ordinarily do not; and that "the emphasis throughout the book is directed toward the engineering aspects of economic theory and business activity."

If there are any "engineering aspects" of economics, as distinguishable from general aspects, this text does not demonstrate what they are. The book is, to be sure, more largely a description of current life and its conditions than a book of ten years ago would have been—but this is in line with the trend.

Engineering deans and students have felt that there was a lack in the neo-classical abstractions that have frequently dominated the courses given to engineering students; and these students have been less resigned to wasting their time on fossilized anachronisms than liberal arts students have been. Their insistence on an economics of their own, as the reviewer interprets it from five years of teaching economics to engineers, has been merely a complaint against classicism. They want *modern* economics. In Bowers and Rowntree they get just that—as they would in Slichter's *Modern Economic Society; Economic Behavior,* by Atkins, Edwards, and associates; and, in the main, in Ely's 1930 *Outlines of Economics,* and others.

Unfortunately, such theory as *Economics for Engineers* includes is close to the surface and much of it loose; but in engineering circles this drawback will probably not be taken as serious. The claim of an emphasis on "engineering aspects" is not met; the objective itself is, in the reviewer's opinion, illusory; but the book does meet well the actual demand, and, in moderate measure, the need.

Elmer Pendell

Carlton, F. T. *Economics.* (Boston: Heath. 1931. Pp. ix, 371.)

This is an elementary text. It presents "the fundamentals of economics," with a minimum of "abstract theoretical discussion." "Theory" has been reduced so far, however (except possibly in the case of wages), that the work is too weak to support a college course. Industrial relations is handled adequately, but equally important subjects such as agriculture and transportation are not accorded the amount of attention which they deserve.

Hugh M. Fletcher

Chinard, G. *The correspondence of Jefferson and Du Pont de Nemours.* (Baltimore: Johns Hopkins Press. Paris: "Les Belles Lettres." 1931. Pp. cxxiii, 293.)

Clark, H. F. *Economic theory and correct occupational distribution.* (New York: Bureau of Pubs., Teachers Coll., Columbia Univ. 1931. Pp. viii, 176.)

The doctrine of non-competing groups is here applied to some problems of educational policy by a professor of education, who urges that training for occupations be provided at public expense in a more broadly-balanced fashion than has been done in the past. We have apparently produced gluts of office clerks and common teachers, and tolerated dearths of doctors and lawyers, through our failure to manipulate educational supplies so as to equalize earnings among vocations. Unfortunately our author is often verbose, repetitious, and a bit vague. He is fascinated with the idea of broad-gauge social planning, and advocates high-powered commissions who are to determine from time to time how many recruits are needed in the various lines of work. Whatever the achievement in this essay, there can be no doubt

that vocational guidance and the development of labor market quotations presents an extremely important and rather neglected field of educational-economic work.

Z. C. D.

Cross, I. B. *Economics.* (New York: American Institute of Banking. 1931. Pp. 552.)

Dunkmann, K. *Kooperation als Strukturprinzip der Wirtschaft.* (Munich and Leipzig: Duncker & Humblot. 1931. Pp. 52. R.M. 2.50.)

This is a continuation of Dr. Dunkmann's earlier treatise, *Angewandte Soziologie: Probleme und Aufgaben* (Berlin, R. Hobbing, 1929), in which he developed the new viewpoint of "the group necessary for life."

Dr. Dunkmann divides economic coöperation into three forms which are coexistent but in different intensities: (1) Household, which involves the distribution of the income among the members upon the current principle of distributive justice. (2) Market, which follows its own fundamental laws. Trade agreements do not change the sociological structure of exchange coöperation. ("Tausch ist Tausch, hier wie dort," p. 27.) (3) Production, which also follows its own fundamental laws. Though formerly it was dependent upon political factors (*e.g.*, slavery), the present trend is to self-ordering.

In general the effort is to bridge the gap between sociology and economics. American institutional economics is lauded. No mention is made of Professor John R. Commons, though the transactional theory presented is his even to terminology.[1] This theory, it will be remembered, is that the minimum unit of all social relations is the transaction, which involves, not merely a buyer and a seller but at least five persons: a buyer, a potential buyer, a seller, a potential seller, and a judge. (John R. Commons, *Legal Foundations of Capitalism,* 1924, Ch. 4.)

The general assumption of Dr. Dunkmann is that, since the coöperation of all working groups (leaders, including business men and technologists; handworkers, including machine operators; and transport workers and helpers) gives the greatest total product, therefore, all will coöperate. The fundamental difference between the psychology of the business man and the psychology of the laborer—which has been pointed out by Professor Perlman in *A Theory of the Labor Movement*—is not appreciated. Nevertheless, Dr. Dunkmann's brochure is a concentrated introduction to a type of German institutionalism.

Karl R. Bopp

Garrison, E. E. *The riddle of economics.* (New York: Macmillan. 1932. Pp. x, 329. $2.50.)

Gray, A. *The development of economic doctrine: an introductory survey.* (New York: Longmans Green. 1931. Pp. 384. $2.)

Certain things have become conventional in a history of economics. It begins with the economic aspects of Greek philosophy, Roman law,

[1] Dr. Dunkmann's reference is to Voegelin, "Die Transaktion," in *Archiv f. angew. Soziologie,* vol. 5, 1929, pp. 14, ff.

medieval ethics, and seventeenth century state building; but once it reaches Adam Smith it slights all economic thought except the conceptual systems known as economic theory. It asks what part of modern truth each of our forefathers perceived; it fails to connect past thought with a cultural environment. Consequently, instead of explaining the development of economics, it presents disconnected periods in chronological order.

Professor Gray's introductory survey follows the convention. Essentially he regards the economic past as a preface to the works of Alfred Marshall. True, he gives Greek, Roman, medieval, and mercantilist thought a setting of political and ethical preconceptions; but thereafter, except in the case of Carey, economic thinking just happens. After summarizing the leading ideas in each system, the exposition proceeds to notice similarities between systems and to criticize past systems from the point of view of modern value theory. Thus Aristotle is felt to be at one point anticipating the Physiocrats, at another approximating Jevons: "He analyses, in the main with justice, the development and the functions of money . . . the nature of capital escapes him." Mercantilism, regardless of its outspoken nationalism, is criticized because its policies could not be simultaneously successful in all countries. The Physiocrats' notion of productivity is refuted, and their concept of net product is called a "vast mystification." Sismondi's theories of distribution "merely possess the value of antiquarian curiosities"; as for his theory of general overproduction, "the orthodox spokesmen have never had any difficulty in showing that . . . a uniform overproduction of all commodities simultaneously is unimaginable." Smith won his great place by "presenting an interpretation of life which, up to a point, corresponded, and still corresponds, with the facts of the case."

The book's best feature is its one failure to follow convention—its refusal to collect names with the indiscriminate industry of a boy collecting stamps. Mercantilists, Physiocrats, classicists and their critics, romantics, optimists, socialists, and Austrians are summarized in the work of twenty-nine men. Apparently the young reader is supposed to have read nothing in the originals; and, granted this supposition, the excellent doctrinal summaries offer coherent ideas of what the great economists thought, if little clue to why they thought thus. This coherence is considerably more illuminating than the usual account of a host of men, each in terms of his best-remembered idea.

CORWIN D. EDWARDS

HAGENAUER, S. *Das "justum pretium" bei Thomas von Aquino. Ein Beitrag zur Geschichte der objektiven Werttheorie.* Beiheft 24 zur Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte. (Stuttgart: Kohlhammer. 1931. Pp. x, 115.)

St. Thomas makes an advance over Aristotle upon whom he is commentating by treating of objective value. Just price rests upon a labor theory of value with utility or need being presupposed but not admitted into active causation. Into just price there enter as components only two elements, *labores* and *expensae,* that is, wages and outlays on materials. Wages are objectively given by what the feudal town-economy deemed fitting for each grade of skilled and unskilled labor, not by "productivity." For each of the three estates, and finally for each of the ten subdivisions of mediaeval society, the just wage lies somewhere between a minimum given by the

physical or social minimum for subsistence and the maximum of "avarice." Usury does not of course enter as a cost into just price at all, and profits appear only as a *"quasi stipendium laboris."*

Just price, according to Fräulein Hagenauer, should be regarded as an economic rather than an ethical concept. A price is "just" when it coincides with admissible cost elements, and the contrasting concept of *pretium datum* does not mean "unjust price" but the going market price determined by supply and demand.

Taking a position in direct opposition to such writers as Ashley, George O'Brien and the apologists for the Church, the present author represents the canonists' application of just price to loans to be honeycombed with inconsistency both internally and with relation to contemporary facts. Having unambiguously condemned and forbidden the giving and receiving of usury, the schoolmen proceeded to invent all manner of casuistic arguments justifying such evasions as had already established themselves. Templars vied with Jews in the lucrative business of lending, a practice not unknown even in the Curia.

Fräulein Hagenauer's treatment of the usury prohibition does not accord with her analysis of just price. The canonists did indeed justify loans associated with risk in the various forms of the *societas* and other partnerships, and consequently, since just price admits a remuneration for risk, the Thomasian doctrine is scarcely a pure labor theory. The author is to be commended on the other hand for her extensive use of original sources and for the valuable compilation of bibliography.

Howard S. Ellis

Hecht, L. *A. Cournot und L. Walras: ein formaler und materialer Vergleich wirtschaftstheoretischer Ableitungen.* (Heidelberg: Weiss'schen Universitätsbuchhandlung. 1930. Pp. 93.)

Heyde, L. *Die Lohnfrage.* (Jena: Fischer. 1931. Pp. 62. Rmk. 2.50.)

Hollander, J. H., editor. *Letters of John Ramsay McCulloch to David Ricardo, 1818-1823.* Reprint of economic tracts. (Baltimore: Johns Hopkins Press. 1931. Pp. 44. $1.)

Kaplan, A. D. H. *Henry Charles Carey: a study in American economic thought.* (Baltimore: Johns Hopkins Press. 1931. Pp. 96. $1.)

Mises, L. and Spiethoff, A., editors. *Probleme der Wertlehre.* Schriften des Vereins für Sozialpolitik, vol. 183, part 1. (München and Leipzig: Duncker & Humblot. 1931. Pp. 295. M. 13.)

This symposium is an excellent collection in short compass of current German thinking on problems of value theory. Chapters vary from "My abandonment of value theory," by F. Gottl-Ottlilienfeld, to "In defense of value theory," by W. Vleugels. It is evident that the reader may find here able partners or worthy opponents for his own particular system.

The book presents the ideas of the principals of many German economic disputes. Those persons who have followed the conflict between Liefmann and Oppenheimer as well as that between the former and Spann will find here a restatement of Liefmann's doctrine of marginal returns (Grenzertragslehre). Oppenheimer contributes a chapter on the "Economic theory of value" in which he again concentrates attention upon the monopoly of private property in land. Spann's chapter concerns "The chief elements of the universalistic value and price doctrine." In it he presents again his theory of equal importance and defends it against critics.

After reading the book one wonders once more about the optimism of Mill concerning value theory (*Principles*, Bk. III, ch. 1, p. 1): "Happily there is nothing in the laws of value which remains for the present or any future writer to clear up; the theory of the subject is complete." Such optimism has not died in the interim; for Oppenheimer concludes his chapter with the statement: "Further problems (than those I have solved with my theory of value) are not presented to the theory of value." It does seem rather surprising that this eternally "solved" problem should forever recur.

A general comment is in order. This book could have appeared only in Germany. The intimate acquaintance of many writers with the Lausanne School (Walras and Pareto) precludes America; the general metaphysical background precludes Britain; etc.

Karl R. Bopp

Notz, W., editor. *Friedrich List: Grundlinien einer politischen Okonomie und andere Beitrage der amerikanischen Zeit 1825-1832*. Band II. (Berlin: Reimar Hobbing. 1931. Pp. xiv, 530.)

Pigou, A. C. and Robertson, D. H. *Economic essays and addresses*. (London: P. S. King. 1931. Pp. vii, 215. 10s. 6d.)

Price, L. L. *A short history of political economy in England from Adam Smith to Alfred Marshall*. 14th ed. (London: Methuen & Co. 1931. Pp. 315. 6s.)

Schmitt, A. *Kreditpolitik und Konjunkturpolitik in Theorie und Praxis*. (Jena: Fischer. 1932. Pp. viii, 240. Rmk. 12.)

Vecchio, G. del. *Grundlinien der Geldtheorie*. (Tübingen: Mohr. M. 11.)

Vogel, E. H. *Grundzüge einer sozialorganischen Privatwirtschaftsverfassung*. (Berlin: Paul Parey. 1931. Pp. 129.)

Josiah Tucker: a selection from his economic and political writings. (New York: Columbia Univ. Press. 1931. Pp. 576. $5.)

Economic History and Geography

Shakespeare's Economics. Henry W. Farnam. (New Haven: Yale Univ. Press. 1931. Pp. xv, 187. $2.50.)

In his study of the statements of Shakespeare which have a bearing on economics, Professor Farnam has made a real contribution to the task of bringing together comment on economic matters from general literature during the time when the volume of writing dealing specifically with such subjects was small. Shakespeare's writings clearly demanded such investigation. Professor Farnam's treatise discloses the thoroughgoing nature of the study which he has made. The book is copiously indexed, a fact adding greatly to its usefulness, and is excellently printed and gotten up. Its contents may be indicated in brief by the chapter headings under which the material is presented. The separate chapters deal with "Economics and drama"; the "Economic backgrounds" of certain of the plays; "The sea and its ventures"; "The land and its foison"; "Exchange and its instruments"; "Labor and its status"; and "Social economics."

Two impressions emerge from the study of the materials presented.

The first of these is the paucity of economic ideas or reasoning—as distinct from reference to economic facts—included in Shakespeare's statements. Shakespeare, in the author's words, "seldom sets out to give a picture of the economic condition of his times, or to moralize on its economic problems" (p. 3). It is not surprising, then, that economic reasoning is infrequent; but there is not an entire absence of such ideas. Bassanio's reference to silver as "Thou pale and common drudge 'tween man and man" (*Merchant of Venice*, III, ii, 103-104) hits upon the essential characteristics of a medium of exchange (p. 93). Romeo, in giving money to the apothecary for poison, states that in giving him money he has *sold* him poison (*Romeo and Juliet*, V, i, 83)—a recognition of the two-sided nature of purchase for money (pp. 93-94). Launcelot Gobbo comments on Jessica's becoming Christian (p. 144) with the words: "This making of Christians will raise the price of hogs: if we grow all to be pork-eaters, we shall not shortly have a rasher on the coals for money" (*Merchant of Venice*, V, III, 24 ff.). Shylock's justification of interest, despite the barrenness of gold, may also be mentioned (pp. 5-7). Where expression of opinion regarding the organization of society is put forth by Shakespeare's characters, Professor Farnam insists forcibly, and with good reason, that we cannot assign to Shakespeare the beliefs expressed by his characters. Many varieties of such opinions, from the Utopian to the aristocratic, appear. There is no doubt that, as the author concludes, Shakespeare was conscious of the evils arising from abuse and unjust distribution of wealth. But the ridicule which revolutionary ideas to correct such evils meet in the plays seems of greater importance than that allowed it by Professor Farnam, and suggests conservative beliefs on Shakespeare's part.

The second impression is the abundance of specific detail on the economic facts of the life of the times. There are long lists of the articles of commerce; much about husbandry; hardly a class of the population escapes mention; terms of commerce, business, and land holding are frequent. Mention is made of imported German clocks (pp. 40, 41), of the price of wool (p. 65), and of the value of silver in terms of gold (p. 99). The very frequent reference to coins, and the great variety of those mentioned, are a clear reflection of the Elizabethan Age. Shakespeare may indeed add little about his era not known from other sources; but there can be no doubt of his extensive knowledge of the commercial activity of his times, of the sea, and of British husbandry.

Joseph B. Hubbard

Harvard Economic Society

The Struggle for South America. By J. F. Normano. (Boston: Houghton Mifflin. 1931. Pp. 294. $4.00.)

This book will be buffeted by the critics. It has defects of form and at times superficiality of statement. It is welcome nevertheless for its assault upon the fallacies that run through so much of the writing on Latin America.

The author first analyzes developments in trade and investments, and forecasts what will be the direction of economic advance. Markets formerly held by Great Britain are being absorbed by the United States, and American investments show an even more marked advance. These features are due to the growth in the use of mass production methods. There is little new in this analysis, and it is the less well done portion of the book.

Normano then reviews the various propaganda measures used by different nationalities to secure strong positions in South America. Here he is in his element. Pan-Americanism playing on new world brotherhood, common revolt against European domination, and "republican institutions" is hollow. It is only a mask for American ambitions for first place. The European "Pan-isms" are no less false. They all parade behind a pretended race unity which does not exist. Neither are they justified by cultural unity. Pan-Latinism is an Italian invention of romantic origin but with a business purpose. France courts South America through her public men, her styles and her literature, but her activities have no connection with the native masses and her cultural influence is superficial. Hispano-Americanism is "a peculiar mixture of tragedy and sentimentality." It is reminiscent of times long past and of the dominant position formerly held by the church. Nor does Ibero-Americanism—a term to include the designs of Spain and Portugal on America—have more reality. All these "isms" have cultural phases but none of them touch the real South America. The new nations are bored at being still called daughters. Finally they have no unity among themselves. Each is developing its own nationality.

Americanization, the Yankee Peril, and political imperialism all are bogies to frighten children. If American goods gain in South American markets, it is because South Americans like them. If increased exports to United States markets appear, it is because America pays more than other buyers.

Loans and direct investments have similar explanations. After all, what is now happening in Latin America is what has happened in other "new" countries—to their advantage.

Thus Mr. Normano arrives at his own favorite thesis which is that, above all, Latin American republics should strive for their industrialization. Great resources lie ready for development. Let foreign capital and enterprise come to help in their exploitation. Economic coöperation with the United States does not carry a threat to the local culture.

It would be reassuring if one could believe the problems of South Amer-

ica as simple as the author sees them. Economic, social, and political advance are not automatically obtained with industrialization, nor is industrialization itself easily to be achieved.

Chester Lloyd Jones

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Japan: An Economic and Financial Appraisal. By Harold G. Moulton. (Washington: Brookings Institution. 1931. Pp. xix, 645. $4.00.)

In view of the prevalent idea that Japanese statistical data are worthless, it is interesting to learn from the author of this book:

> My observation is that, on the whole, Japanese statistical methods and data now compare favorably with those of other countries. In the fields of public finance and the international accounts the data are in fact exceptionally complete (p. xiii).

The first half of the work is devoted to an analytical presentation of these data relating to Japan's resources and their utilization, land and water transportation, public utilities, industrial development, domestic trade organization, financial organization, insurance, public finance, the public debt, foreign trade, international financial relations, and the growth of national wealth and income. The subjects treated show the scope of the book. The remainder is taken up by the author's interpretation of the data and discussion of Japan's problems and policies of today.

Thinking it unwise to attempt a brief, general review of a book of this kind, the critic will indicate some of the more important observations of the writer with his historical survey. According to our author the economic history of modern Japan divides itself into four periods. The first period, embracing 1868-1895, was "a period of foundation laying and relatively slow growth," and was "distinguished by the selective adaptation of occidental institutions in the reorganization of the political and economic structure of the country" (p. 303). The second, extending from 1896 to the outbreak of the World War, was "one of rounding out and stabilizing the new political, economic and social systems" (p. 303). The third period from 1915 to 1920 was "one of extraordinary economic prosperity and expansion, followed by severe reaction" (p. 304). "The fourth period, extending from 1920 to 1929, is difficult to characterize because of fluctuating conditions in the earlier and changing policies in the latter years" (p. 305).

Speaking of the government in relation to economic enterprises, the author rightly says, "While the state took the initiative in developing economic enterprises it was regarded as desirable to transfer them in due course to private hands" (p. 313). How this principle was carried out is shown by concrete examples in chapter 17. Upon economic effects of the "fostered industrialism" our writer concludes that:

The managerial and financial functions assumed by the government have in general yielded economic fruit. The tempo of expansion in agriculture, in mining, in fisheries, as well as in transportation, shipping, manufacturing, etc., has been greatly accelerated. In view of the conditions of the Meiji era, it is doubtful if, without the stimulus and general coördination which resulted from government policies, any considerable industrial and commercial expansion would have occurred prior to the World War (p. 340).

Among the social consequences of Japan's economic expansion, the writer sees the growth of her population as an acute problem. His treatment of this much discussed problem is one of the most suggestive among brief studies that have appeared in this country. However, like many other western writers, he assumes the *status quo* in the Japanese art and science of agriculture. For instance, he is not apparently familiar with Dr. Ando's experimentation with rice and wheat growing, which has resulted in developing new types of seed that can successfully bear more intensified applications of fertilizer, naturally producing larger crops. Finally the author makes certain suggestions to improve Japan's economic life such as the maintenance of the gold standard, the reduction of interest rates, the construction of more and improved highways, the curtailment of armament expenditures, etc. The author is optimistic on Japan's industrial future, but considers the high tariff policy of industrial nations a serious obstacle in foreign trade.

The entire contents of the book are carefully summarized at the end in three pages. The work is made attractive with maps, charts, and graphs, and additional data are given in the appendix numbering over forty pages. The index is satisfactory, but no bibliography is given. The book is a valuable reference for the economic history of modern Japan as is Takekoshi's work for the period of 1600-1868.

YAMATO ICHIHASHI

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The Leeds Woollen Industry, 1780-1820. Edited by W. B. CRUMP. Pubs. of the Thoresby Society, Vol. XXXII. (Leeds: Thoresby Society. 1931. Pp. xi, 343. 16s.)

The Leeds Woollen Industry is a composite volume. Appropriate to an initial survey of that industry, it contains the publication of important and permanently valuable original sources; while it also presents essays—such as that by the editor, and bearing the same title as the book—which are more than introductory to the documents now for the first time printed. By virtue in part of this composite character, but also in part of introductory essays at various points by divers authors, the volume becomes rather complicated. At least, it is not simply described.

Let it suffice to state that, beyond the general introductory (and, as just suggested, rather more than introductory) essay by Mr. Crump, the book may be divided into two major parts: the publication of a diary kept over several years (1808-09 and 1811-14) by one Joseph Rogerson, the proprietor of a combined carding, slubbing, and finishing mill at Bramley (just outside Leeds); and the printing of numerous papers relating to Benjamin Gott. The diary is introduced by an excellent essay on Rogerson and the significance of his daily notes, written by Miss Emily Hargrave and Mr. Crump; while various sections relating to the Gott papers are prefaced with essays by Professor H. Heaton of Minnesota, Professor Yewdall of the Textile Department, University of Leeds, and others. The volume ends with a section devoted to important and interesting newspaper-clippings, collected by Miss Hargrave and Mr. Crump. Incidentally, it may be stated that all the documents now published for the first time are in the possession of the Thoresby Society or of the University of Leeds, except a few relating to Gott's contacts with Boulton and Watt, which are at Birmingham.

The diary of Joseph Rogerson is of peculiar value because it pertains to a type of wool-working establishment which is now long extinct but which played an important rôle in the Yorkshire industry between the coming of the "new inventions" and the victory of the factory system. This was an establishment where the new, power-driven "scribbling" and carding machines found place beside the older fulling stocks, and to which the independent (or largely independent) Yorkshire "manufacturers" sent their wool (after scouring) to be prepared for spinning, and later sent their cloth to be fulled. The machinery used in these processes —the willey, scribbler, carder, and stocks—were all driven by power. Yet, curiously enough, these Yorkshire shops included one other operation that was wholly hand work. This was "slubbing," an operation carried out on a device similar to Hargreaves' jenny called a "billy," and consisting of the piecing together, end to end, of the cardings (as they fell from the doffer of the carding machine) and the elongation and twisting thereof until they came to resemble a real yarn. The inclusion of this last process within the shop of the "scribbling miller" is a variant from American experience; nor is reason offered in the present volume why the combination should have arisen in England.

Not only is the shop of the "scribbling miller" important as an aid to the Yorkshire clothier, giving him competitive strength against potential factory organization, but it is significant as a first stage in factory development. Although evidence on this point is not here adduced, the statement is made in an introductory essay that "the woollen mill grew out of the scribbling mill" (p. 60). In view of American experience,

where the evolution of factories through carding-fulling shops seems to have been common, it will be interesting to watch for what further data on this evolution may subsequently be advanced by Professor Heaton or others.[1]

The remainder of the volume—barring the small, final section of newspaper-clippings and the like—centers on Benjamin Gott, as has already been intimated. A generous and varied selection from the Gott Papers at the University of Leeds is prefaced by a description of these documents contributed by Dr. Offor, the University librarian. Professor Heaton sketches Gott's relations with Boulton and Watt; Mr. Crump presents a history of Gott's Mills; and Professor Yewdall gives excerpts from a notebook begun about 1811 in which is recorded the mill practice of those days as exemplified at Gott's establishment, Bean Ing. The selected material runs from Gott's indenture of apprenticeship (to certain cloth merchants) of 1780 to an enumeration of employees at Bean Ing in 1813, and from a letter on conditions of the trade with America of 1806 to the "Finishing Routine (at Bean Ing) for Best Superfine Cloth" as of 1814.

In some measure, this Gott material serves to illustrate the account of "Benjamin Gott and the Industrial Revolution in Yorkshire," given by Professor Heaton in the current number of the *Economic History Review*, since Professor Heaton has inspected much, perhaps the greater part of this material. Here also is presented Gott, the merchant, who early becomes interested in manufacturing; who is the moving spirit in the erection of a mill extraordinarily large for the period—containing 761 work-people in 1813; and who struggled unsuccessfully against the organized "croppers" in attempting to introduce labor-saving machinery into the finishing processes. But new facts are developed: in particular, a host of valuable technical data regarding the exact character of machinery and processes employed at Bean Ing; and an interesting description of the internal organization of that establishment.

As regards the last, two features seem particularly important. First, it may be noted that most of the machinery at this large establishment was hand-driven. Hand-billies, hand-jennies, hand-looms, and all the hand-operated devices for finishing were utilized. The factory consisted merely of a gathering together under one roof of the hand processes and of the then customary mechanical aids (scribbling machines and fulling stocks), which had previously existed side by side in the homes or shops of individual clothiers and in the carding-fulling mills of the

[1] The criticism may be offered that while Mr. Crump's essay pretends to cover the whole development at that center, little evidence is presented of particular cases other than those illustrated by documents published in this volume. General statements like the one just quoted above lack supporting data. However, this difficulty is one likely to flow from the composite character of a book like the present.

Joseph Rogerson variety. Secondly, the administration of Bean Ing was not unitary. While Gott owned the building and much of the machinery, especially the scribbling-carding and finishing equipment, he seems to have gotten three or four other men to help out in the control operations. These men put in their own spinning and weaving devices, paid their own operatives, probably sold their cloth independently, and compounded with Gott by paying him "percentages" on the value of wool used and of cloth produced. In short, here again we have a reflection of the industrial organization then dominant in Yorkshire. Here are (as it were) "clothiers" operating in a "factory."

Bean Ing, then, is a curious phenomenon. It represents a true transitional stage. The pre-factory methods of wool-cloth manufacture in Leeds—hand-jennies, the "scribbling miller," the semi-independent "clothier," and all—are lifted bodily and, without the introduction of a single, new, mechanical device or the alteration of essential elements in organization, are placed wholly within the four walls of a factory building. The case is perhaps unique, but none the less interesting. And what fun it will provide for those modern scholastics who would draw minute lines among the divers stages of industrial development: was Bean Ing a "factory," or wasn't it?

Obviously *The Leeds Woollen Industry* is worth studying. Indeed, it may be said without hesitation that the volume makes a real contribution to our understanding of the Industrial Revolution in England, even to that aspect sometimes spoken of as "over-emphasized" in modern accounts, the manufacture of textiles.

Arthur H. Cole

Harvard University

NEW BOOKS

Ambler, C. H. *A history of transportation in the Ohio Valley, with special reference to its waterways, trade, and commerce from the earliest period to the present time.* (Glendale, Calif.: A. H. Clark Co. 1931. $7.50.)

Barnes, J. A. *John G. Carlisle, financial statesman.* (New York: Dodd Mead. 1931. Pp. 565. $5.)

Barnes, J. S. *Fascism.* (New York: Holt. London: Butterworth. 1931. Pp. 252.)

Beardwood, A. *Alien merchants in England, 1350 to 1377: their legal and economic position.* (Cambridge: Mediaeval Acad. of America. 1931. Pp. xii, 212. $4.)

Beckerath, H. von. *Spaniens wirtschaftliches und politisches Gleichgewicht.* Reprinted from *Weltwirtschaftliches Archiv,* Band 34. (Jena: Fischer. 1931. Rmk. 2.)

Bogart, E. L. *The Young Plan and other papers.* (Claremont, Calif.: Pomona Coll. 1931. Pp. 164.)

Bowden, W. *The industrial history of the United States.* (New York: Adelphi. 1930. Pp. x, 511.)

Boyd, M. C. *Alabama in the fifties: a social study.* (New York: Columbia Univ. Press. 1931. Pp. 263. $4.25.)

Dr. Boyd's book is descriptive rather than interpretative, nor does the length of the period chosen for study permit of developmental treatment. The author has swept together a mass of facts not hitherto available, and particularly worth while because they apply to a state less studied than the older communities of the seaboard. The concluding remark is that "it has been the popular belief that an old and tottering culture was brought low [by the Civil War], when much more tragically it was a young culture full of great promise that was cut off in its youth." As against this is to be set the reflection that the economic foundation was almost as weak as that of Virginia and the Carolinas. The drift of population to the southwest simply brought new settlers with old methods. As Dr. Boyd herself says, "Alabama agriculture in the fifties was already grappling with the serious problems of a vicious one-crop system . . . and ruthless exploitation of the land. . . . The necessity for diversification and soil improvement was acceded to theoretically."

Broadus Mitchell

Buehler, E. C., and others, compilers. *Selected articles on recognition of Soviet Russia.* Handbook ser. 4, vol. iii. (New York: Wilson. 1931. Pp. 387. $2.40.)

Clark, J. M. *The costs of the World War to the American people.* Econ. and soc. hist. of World War. (New Haven: Yale Univ. Press. 1931. Pp. 328. $3.50.)

Copland, D. B., editor. *An economic survey of Australia.* Annals, vol. 158. (Philadelphia: American Acad. of Pol. and Soc. Science. 1931. Pp. iv, 281. $2.50.)

Elliott, W. Y. *The new British empire.* (New York: McGraw-Hill. 1932. Pp. xv, 519. $5.)

Faulkner, H. U. *American economic history.* Rev. ed. (New York: Harper. 1931. Pp. xiv, 795. $3.50.)

Field, F. V. *American participation in the China consortiums.* (Chicago: Univ. of Chicago press. 1931. Pp. xi, 198. $2.)

Contains chapters on the Hukuang Railways loan and the currency reform and Manchurian industrial development loan.

Fong, H. D. *China's industrialization: a statistical survey.* Prepared for fourth biennial conference of the Institute of Pacific Relations held in Hangchow, October 21-November 4, 1931. (Shanghai: China Institute of Pacific Relations. 1931. Pp. 46.)

Gide, C. and Oualid, W. *Le Bilan de la guerre pour la France.* (New Haven: Yale Univ. Press. 1931. Pp. xii, 370. 52 fr.)

Gilpatrick, D. H. *Jeffersonian democracy in North Carolina, 1789-1816.* (New York: Columbia Univ. Press. 1931. Pp. 257. $4.25.)

"Twentieth-century North Carolina is wont to point with pride to her leadership in a newly industrialized South and to her rank as second among the forty-eight states in the payment of federal taxes, nor has she hesitated in recent years to depart from her traditional political allegiance. To such a state is here opposed the North Carolina of 1789-1816, characterized by a marked agrarian particularism, by stubborn objection to any and all federal taxes, and by steadfast devotion to the Jeffersonian party with its suspicion of the 'rich, the well-born, and the able.' "

Hacker, L. M. and Kendrick, B. B. *The United States since 1865.* (New York: Crofts. 1932. Pp. xx, 775. $3.75.)

Haensel, P. *La política económica de la Rusia Soviética.* (Madrid: Garcia Rico. 1931. Pp. 283. 8.50 ptas.)

Hankin, G. and Hankin, C. A. *Progress of the law in the United States Supreme Court, 1930-31.* (New York: Macmillan. Washington: Legal Research Service. 1931. Pp. xv, 525. $5.)

Hicks, J. D. *The Populist revolt: a history of the Farmers' Alliance and the People's Party.* (Minneapolis: Univ. of Minnesota Press. 1931. Pp. xiii, 473. $4.)

Hulbert, A. B. *Forty-niners: the chronicle of the California trail.* (Boston: Little Brown. 1931. Pp. xvii, 340.)

Jernegan, M. W. *Laboring and dependent classes in Colonial America, 1607-1783.* (Chicago: Univ. of Chicago Press. 1931. Pp. xiii, 256. $3.)

Kaiseng, J. W. *La politique étrangère du gouvernement national de Chine et la révision des traités inégaux.* Bibliothèque de l'Institut de Droit Comparé de Lyon, tome 28. (Paris: Marcel Giard. 1931. Pp. 112.)

Larkin, P. *Property in the eighteenth century.* (Cork: Cork Univ. Press. 1931. Pp. xiv, 252.)

Matheson, M. C. *Indian industry: yesterday, to-day and to-morrow.* (New York: Oxford Univ. Press. 1930. Pp. vii, 227. 75c.)

This book is the outcome of a study made by a small group working under the auspices of the National Christian Council of India, Burma and Ceylon. It is not quite what its title suggests. According to the preface "the purpose of its publication is to give the needed information and guidance to the Council and to Missions and Churches." It might almost be called a handbook for Christian social workers in India.

Part I deals with the past, but contains no historical material except a cursory five-page review of factory legislation. Part II describes the labor aspect of present Indian industry. There are separate chapters which describe conditions in the cotton, jute, coal-mining and tea-growing industries and another which provides glimpses of several minor industries, such as rice-milling and cotton-ginning.

Unfortunately no writer can free himself from his past, and there are evidences of the lack of understanding and appreciation prevalent now between Indians and Englishmen. When speaking of the trade-union work of some of Gandhi's followers, the author feels it necessary to point out that "we are not discussing here the political aspects of their work, or of their associates" (p. 117). So also, instead of crediting the remarkably good rule of the Princes of Baroda and Mysore, the author says that "in states like Mysore and Baroda there is a great ambition to show what the Princes can achieve and this helps to ensure good conditions" (p. 48). Also there is evidence of disagreement on the vexed problem of taxation which most Indians find too heavy and most official British believe extremely light. That "government taxes are lower than in most countries" (p. 137) means nothing apart from (a) the incomes of the people and (b) what is provided out of those taxes. So also, something other than observation must lead to the evidently troubling question, "Is India really so poor" (p. 137)?

Part III is concerned with aspirations rather than with facts but is more useful than this might suggest. It points out a number of the most important matters for those who hope to see built up in India a far-reaching code of social and economic legislation.

While the volume contains a wholly inadequate discussion of "Indian industry," and while it tells little that is new, it does treat the Indian labor problem with a large degree of insight. The missionaries (with their converts and associates) have a more thorough appreciation and understanding of fundamental conditions in the Asiatic countries in which they live and work than have any other foreign observers.

D. H. Buchanan

Merk, F., editor. *Fur trade and empire: George Simpson's journal, 1824-25, together with accompanying documents.* Harvard hist. stud., 31. (Cambridge: Harvard Univ. Press. 1931.)

Moloney, F. X. *The fur trade in New England, 1620-1676.* Harvard undergrad. essay ser. (Cambridge: Harvard Univ. 1931. Pp. 150. $1.25.)

Morandi, R. *Storia della grande industria in Italia.* (Bari: Gius. Laterza. 1931. Pp. 300. L. 22.)

Mortara, G. *Prospettivi economiche, 1931.* (Milan: Università Bocconi. 1931. Pp. xxii, 500. L. 50.)

Such an annual as this, when it deals with the sharp and universal changes of the year 1930, takes on a special interest. The introductory chapter is general in scope, emphasizing the main stages reached by the depression. It briefly outlines the situation of Italy, where an important national crisis, induced by revaluation of the lira, had just (1929) been overcome when the swift decline of security prices and of wholesale prices ushered in the world depression. Italian affairs stand forth in all the chapters; but, since Italy is more dependent on other countries than they are upon her, the volume becomes above all a summary, admirable though brief, of the course of developments in the leading countries. Its procedure is to take up successively the staple commodities and thereafter transportation, currency and finance.

Robert F. Foerster

Mühlenfels, A. von. *Das Tributproblem und seine Lösung.* (Berlin: Junker und Dünnhaupt. 1931. Pp. 137. Rm. 6.)

Myers, D. P. *The reparation settlement, 1930.* (Boston: World Peace Foundation. 1930. Pp. 249. $2.50.)

The great value of the Dawes Plan was that it stripped the reparation problem "of its political incrustations and substituted a system essentially, if not entirely, economic." Before reaching this statement early in the text, the reader has had sketched for him the principal events since January 10, 1920, which made the adoption of some definite reparation plan necessary for the welfare of the world. A brief statement concerning the more important features of the Dawes Plan is included, as well as an occasional comment from the pen of another, as, for example, the remark of the late Jacques Seydoux that then "reparation ceased to be c.i.f. and became f.o.b."

With the problem clearly stated, Dr. Myers presents in chronological order the steps taken for its solution. There is real charm in the passage in which he quotes the reason why the New Plan was called the Young Plan. " 'Finally, the chairman prepared a new and independent plan in which these divergent views were brought closer together.' Eventually unanimous agreement was reached."

The name of the book makes us aware that the adoption of the Young

Plan of 1929 was not the final step considered, but was itself only a basis for the work of the Hague Conference held in January, 1930. The other subjects covered are the establishment of annuities, the bank for international settlements, commercialization and mobilization, liquidation of the past, and the payment of governmental debts. Appendices, annexes, and addenda wherein are reproduced the contents of significant statistical tables, text of the Young Plan, and the charter of the bank for international settlements, occupy 164 pages. These constitute a mine of information invaluable to the student of international finance.

Adverse criticisms of the book occurring to this reviewer concern trifling matters indeed. Nevertheless, he wonders why so unusual a word as "completory" was used and why the word "paragraph" was abbreviated "par." more than once in the text itself.

John G. Herndon, Jr.

Nitobe, I., and others. *Western influences in modern Japan.* (Chicago: Univ. of Chicago Press. 1931. Pp. xii, 532. $4.)

This is a series of papers which were presented at the meeting of the Institute of Pacific Relations, held in Kyoto in 1929. They deal largely with the cultural influence in the fields of religion, art, science, journalism and education. There are, however, chapters on the economic and industrial development of modern Japan, communications in Japan and railways.

Ormsby, H. *France: a regional and economic geography.* (New York: Dutton. 1931. Pp. xiv, 515. $6.50.)

Philpot, H. S. *The province of Nova Scotia, Canada: resources and development.* 4th ed. (Ottawa: H. M. Stationery Office. 1930. Pp. 157.)

Pinkerton, R. E. *Hudson's Bay Company.* (New York: Holt. 1931. Pp. 365. $3.50.)

Porter, K. W. *John Jacob Astor, business man.* Vols. I and II. (Cambridge: Harvard Univ. Press. 1931. Pp. xxvii, 585; xiii, 590-1353.)

Pound, A. and Moore, S. T., editors. *More they told Barron: conversations and revelations of an American Pepys in Wall Street, the notes of the late Clarence W. Barron.* (New York: Harper. 1931. Pp. x, 334.)

Redford, A. *The economic history of England, 1760-1860.* Econ. hist. of Great Britain. (New York: Longmans. 1931. Pp. 230. $1.40.)

Rippy, J. F. *The capitalists and Colombia.* (New York: Vanguard Press. 1931. Pp. xxxii, 256. $2.)

Salin, E., editor. *Das Reparationsproblem.* (Berlin: Reimar Hobbing. Pp. 1100. Rm. 20.)

Sizer, T., and others. *Aspects of the social history of America.* (Chapel Hill: Univ. of North Carolina Press. 1931. Pp. 120. $1.50.)

Southard, F. A., Jr. *American industry in Europe.* (Boston: Houghton Mifflin. 1931. Pp. xv, 264. $3.)

Southworth, C. *The French colonial venture.* (London: P. S. King. 1931. Pp. xi, 204. 12s. 6d.)

Swanton, J. R. *Source material for the social and ceremonial life of the Choctaw Indians.* Smithsonian Institution Bureau of American Ethnology, bull. 103. (Washington: Supt. Docs. 1931. Pp. vii, 282. 60c.)

Thompson, J. W. *Economic and social history of Europe in the later Middle Ages, 1300-1530.* (New York: Century. 1931. Pp. viii, 545. $5.)

Toynbee, A. J. and Boulter, V. M. *Survey of international affairs, 1930.* (New York: Oxford Univ. Press. 1931. Pp. ix, 605. $7.)

An important contribution for the better understanding of current economic history. Part 6 (pages 443-551) contains four chapters on "World economic tendencies since the War," by H. V. Hodson; "Conferences on concerted economic action (tariff truce)," by H. V. Hodson; "The history of German reparations from the signing of the Young report to the coming into force of the Hague agreements," by R. J. Stopford; and "The German economy and reparations," by J. Menken. The volume also contains a record of the London Naval Conference and the Preparatory Commission for the Disarmament Conference.

Wertenbaker, T. J. *Norfolk: historic southern port.* (Durham: Duke Univ. Press. 1931. Pp. ix, 378. $4.)

This book ties the local story in with the national narrative. The writer, well known for other works, moves familiarly in his material, and presents his results with economy and skill. The South has not been backward in local histories, but they have been too largely the work of local worthies. The present volume belongs to a new and better type, in which scholarship and perspective come to the assistance of local affection; the result is a realism which makes its peculiar and important contribution. Professor Wertenbaker's book deserves praise for a special accomplishment. It was "written by contract with the city government of Norfolk," and remains objective!

Broadus Mitchell

Wheeler, J. *A treatise of commerce.* Edited by G. B. Hotchkiss. (New York: N.Y. Univ. Press. 1931. Pp. xi, 484.)

Wheeler's treatise in its original form has been a rarity highly prized by collectors. A defective copy has brought $100, a good copy much more. And the book has intrinsic as well as scarcity value, if marginal theorists will excuse the expression. Written by a man who was intimately acquainted with commercial affairs, it is one of our best sources for the period. The author frankly confesses, even on his title page, that the book is meant to show "the commodities arising by a well ordered and ruled trade, such as that of the Society of Merchants Adventurers is proved to be, written principally for the better information of those who doubt of the necessariness of the said Society in the state of the realm of England"; but, as the editor says, a known bias is better than one concealed. The book is a mine of information which is now put within the reach of all.

The edition is luxurious. It comprises a substantial and interesting introduction of over 100 pages, which gives the historical setting and stresses the significance of the book in the history of marketing, a facsimile of the original, and a text edited in modern type and spelling. A bibliography is appended, to which might be added the article by S. van Brakel in *Vierteljahrschrift für Sozial und Wirtschaftsgeschichte,* 1907, and, more important, C. Te Lintum, *De Merchant Adventurers in de Nederlanden,* 's Gravenhage, 1905.

Clive Day

Wheeler-Bennett, J. W., editor. *Documents on international affairs, 1930.* (New York: Oxford Univ. Press. 1931. Pp. xii, 264. $4.)

This is the third annual volume in this series and serves as a companion volume to Toynbee's *Survey of International Affairs,* mentioned above.

This includes documents relating to governments of Europe, America, Asia and Africa.

WOODHEAD, H. G. W., editor. *China year book.* (Shanghai: North China Daily News. London: Simpkin Marshall. 1931. Pp. xvi, 728. 42s.)

YOUNG, A. *Voyages en France en 1787, 1788 et 1789.* Vols. I-III. Translated by H. SÉE. (Paris: Armand Colin. 1931. 160 fr.)

YOUNG, C. W. *The international legal status of the Kwantung leased territory.* (Baltimore: Johns Hopkins Press. 1931. Pp. xxx, 249. $2.25.)

———. *Japanese jurisdiction in the South Manchuria Railway areas.* (Baltimore: Johns Hopkins Press. 1931. Pp. xxxv, 332. $3.)

———. *Japan's special position in Manchuria: its assertion, legal interpretation and present meaning.* (Baltimore: Johns Hopkins Press. 1931. Pp. xxxiv, 412. $3.)

Die deutsche Wirtschaftskunde: ein Abriss der deutschen Reichsstatistik. (Berlin: Reimar Hobbing. Pp. 412. Rm. 2.80.)

Die interallierten Schulden: ihre Entstehung und Behandlung im Young-Plan. (Berlin: Reimar Hobbing. Pp. 204. Rm. 9.)

League of Nations: budget for the fourteenth financial period (1932) and report on financial questions. Official Jour., 12th yr., no. 10. (Geneva: League of Nations. 1931. Pp. 1903-2021. $1.25.)

Major forces in world business depression. (New York: National Industrial Conference Board. 1931. Pp. ix, 52. $1.50.)

Deals with declines in prices, international trade and industrial activity. Gives a brief analysis of conditions in the Far East, India, Australia, and includes a summary of discussion on the factor of gold scarcity as a cause of depression.

The national income of the U.S.S.R. Memorandum no. 3. (Birmingham, England: Birmingham Bureau of Research on Russian Economic Conditions. 1931. Pp. 16.)

New Zealand: the local authorities handbook, 1931. No. 6. (Wellington: Census and Statistics Office. 1931. Pp. viii, 493. 7s. 6d.)

O.P.M. Other people's money! The greatest American racket. (New York: Chemical Foundation, Inc., 654 Madison Ave. 1931. Pp. 103.)

Reprint of articles by Garet Garrett in the *Saturday Evening Post* on "The Rescue of Germany" and "As Noble Lenders."

Poland: concise statistical year-book, 1931. 2nd yr. (Warsaw: Chief Bureau of Statistics. 1931. Pp. xvii, 157.)

Printed in English. A convenient abstract of statistical data; concise yet comprehensive, covering economic and social statistics.

Agriculture, Mining, Forestry, and Fisheries

The Potash Industry: A Study in State Control. By GEORGE WARD STOCKING. (New York: Richard R. Smith. 1931. Pp. x, 343. $3.00.)

This volume not only affords new sidelights on recent developments in the German potash industry, but it illuminates in no small way the whole problem of the social control of business. The treatment is presented in three parts: the introduction expounding apposite economic theory and neo-mercantilistic politics, the second part outlining the sequence of events, and the conclusion evaluating the social net gain.

Economically, the case of potash is one (p. 337) of

a valuable mineral scattered over a wide area, property ownership of which rests with hundreds of different individuals and falls under different political jurisdictions; an industry involving a highly specialized investment sharply subject to the principle of decreasing costs up to full utilization of plants and equipment; a product for which the demand is relatively inelastic, consumption varying not so much with price changes as with the extent of propaganda and general financial conditions of the agricultural classes.

Under competition, speculative conditions inevitably produce excess capacity which even bankruptcy fails appreciably to diminish. Large fixed costs bring about either cutthroat competition or cartel-maintained under-operation. Judged by geological stratification and chemical composition, potash deposits of uneconomic character are utilized. Altogether (p. 61) "the industry is poorly adapted to the controls and checks which competition is presumed to offer."

Politically, the case of potash is one in which social control is imperative. The form will depend on experience and the institutional background of the industry. The first cartel, while modelled on an official state prototype of earlier decades, represented but little more than an extension of the mercantilistic state's *Direktionsprinzip.* But with the recurrent breakdown of successive cartels this principle was gradually expanded into a complete theory of the *Gemeinwirtschaft,* that is, (p. 151) "the organic adjustment of individual economic undertakings to the general interest of the whole state." The rôle played by the government has increased correspondingly from participation to dominance. In fact, since 1910 potash concerns have been compelled to join the cartel. At present under the provisions of the organic statute of 1919 the industry is controlled by an economic parliament composed of representatives of mine owners, miners, and consumers, which is directly responsible to the Federal Minister of Economy.

The results are in some ways unusual. Despite the intentions of a socialistic government (p. 194), "the syndicate is no longer a state-controlled syndicate for state ends; it is rather a business-controlled syndicate for business ends." Furthermore, the plea (p. 244) "that syndicate control has insured even the domestic consumer potash at reasonable prices is as the sounding of brass and the tinkling of cymbals." Though almost every page bristles with evidence from original documents, the cost figures introduced in profusion at this point are not convincing. Similarly, the workers in the potash industry (p. 257) "have not been accorded a voice in its control adequate to the rôle which they play in its productive processes."

Economic democracy is thus demonstrated to work in about the same way as political democracy. Entrepreneurs manipulate governmental machinery to effect their own ends, while the desires of laborers and the

public receive more ostensible representation than actual consideration. The implication is in no way warranted, however, that the form of public control under which natural resources like potash are exploited is a matter of indifference. In no uncertain terms Professor Stocking condemns *laissez-faire*. He deprecates the fact that in the new potash fields in Texas and New Mexico (p. 303), "the wildcat has already reared its howling head and its piercing cry may soon be confusing the plea of the more legitimate promoter." He concludes his study with a plea for a rational policy of exploitation, in short, one of social control. Such a policy does not mean laborer-control or consumer-domination. These dangers exist only in fancy. In reality both private profits and social welfare would be maximized. Then why not follow the German model?

T. J. Kreps

Stanford University

The Agricultural Crisis. By the Economic Committee of the League of Nations. Vol. I. (Geneva: League of Nations. Boston: World Peace Foundation. 1931. Pp. 322. $2.00.)

This volume, in four parts and a supplement of 238 pages, is a summary of the conclusions reached by the Agricultural Delegation of the Economic Committee sitting jointly with a delegation of the International Institute of Agriculture and a group of experts in "agricultural economy," summoned from twenty-four countries, including the United States. Two meetings were held, January, 1930, and January, 1931. The report also cites the findings of the Commission of Enquiry for European Union, February and May, 1931, and the Conference on Wheat held in Rome, March 26, and London, May 18, 1931.

The report is presented in four parts: (1) the general characteristics, (2) the causes of the agricultural crises, (3) the market conditions of the principal agricultural products and (4) possible remedies and measures suggested for dealing with the crisis. The supplement contains the statements of the agricultural experts with regard to specific conditions in their respective countries. It is evident that the whole report, while presenting a world situation, specifically emphasizes European conditions. The League of Nations will publish in a second volume a "number of studies covering countries not represented at the meetings of January, 1930, and 1931."

The agricultural crisis, or better "a period of depression dating back a considerable time," exists in all countries. Its outstanding characteristic is "lowness of prices." In most cases cost of production is higher than market price and the price of manufactured goods is relatively higher than that of products sold by farmers. To this disparity is added "instability of prices"; for the recent course of farm prices has been marked

by rapid and extreme fluctuations. The failure to earn farm profits has resulted in depreciated land values and declining standards of living for both farm operators and farm laborers. "Fiscal charges" have increased since the war, interest rates are higher, and long-term loans are hard to obtain on reasonable terms in many countries. The crisis will probably endure for a long time, since "it consists in a universal disturbance of the balance between production and consumption."

The causes of the crisis lie in changes in consumption; overproduction of certain products, due to (a) "technical progress of agriculture" and (b) economic dislocation caused by the war; monetary fluctuations; and protectionism. These causes vary in emphasis in different countries; but few European countries have recovered from the disruption of agriculture during the war, and the consequent rise of nationalism and fall of public revenue.

On the whole there is little new in the statement of causes of the crisis, on which there is general agreement. Nor is it surprising that the "experts . . . . differ profoundly as to the means of combatting it." The committee stresses the international character of the problem and emphasizes the possibilities of preferential agreements, particularly in the wheat trade, whereby the countries of southeastern Europe might be permitted to sell their surplus wheat to importing Europe. Education in consumption, attention to quality in production, discovery of new industrial uses for farm products, better market organization, further study of protectionism with a view to lowering or abolishing tariffs and export bounties as soon as possible, and the encouragement of coöperative organizations of producers for the sale of their products are suggested remedies. Market affiliations between producers' and consumers' coöperatives are approved. The advisability of central purchasing or selling agencies under state direction was advanced by some experts. The establishment of an international mortgage credit company under the auspices of the League of Nations approved by the Commission of Enquiry for European Union at Geneva in May, 1931, the one relief measure actually set on foot, is warmly commended.

International committees of this sort have little authority, but they do bring together much valuable data and serve as a clearing house for projects and opinions. Their greatest value probably lies in the bringing of agriculture, its people and its products into the framework of international affairs. The importance of agricultural production, trade and finance between nations is tremendous, but is only feebly represented. The clamor of politics, industry and public finance has diverted the attention of statesmen.

This report will help to focus attention on the international character

of the farm problem and the necessity for dealing with it as one of the major factors in the international situation.

ALEXANDER E. CANCE

Massachusetts State College

NEW BOOKS

BARTLETT, R. W. *Coöperation in marketing dairy products.* Part I. *Aims and agencies.* Part II. *Price plans.* (Springfield, Ill.: Charles C. Thomas. 1931. Pp. viii, 299. $4.)

Describes the development of this movement, particularly in the past fifteen years. Part I treats of the aims and agencies of coöperative organizations, and Part II of price plans. The latter contains interesting illustrations of methods in establishing prices. Each chapter has bibliographical references, and in the appendix are copies of agreements and plans.

BELSHAW, H. *The provision of credit with special reference to agriculture.* Auckland Univ. coll. texts, no. 1. (Cambridge, England: Heffer. 1931. Pp. 326.)

BERCAW, L. O., compiler. *California: an index to the state sources of agricultural statistics.* Part III. *Livestock and livestock products.* Agric. econ. bibliog. no. 31. (Washington: Supt. Docs. 1931. Pp. 371, mimeographed.)

BRINTON, J. W. *Wheat and politics.* (Minneapolis: Author, Rand Tower. 1931. Pp. 270. $2.50.)

An indictment of the Federal Farm Board.

CLAASSEN, C. J. *Making farms pay: a way out for owner and tenant. A narrative of personal experiences in managing 1,000 farms.* (New York: Macmillan. 1931. Pp. xvi, 126. $2.)

In the foreword Wheeler McMillen remarks that "group management of farms is young—so young that this is the first contribution to the literature of the subject in book form. Also it is healthy, as the steady and rapid growth of the profession indicates. There is every reason to believe that it will continue to grow, and perhaps to evolve in directions not yet contemplated. At present, for instance, the idea is confined almost entirely to lands whose owners do not wish personally to assume management burdens. A time may come when resident farm owners and operators may find it profitable to hire the expert assistance of the commercial farm manager."

Mr. Claassen is one of the pioneers in group farm management and what he has to say regarding the movement represents the conclusions of one who has had as wide and successful an experience in professional farm management as any man in this country. The experiences Mr. Claassen recounts indicate his confidence in the possibility of expert management's supplying the essential element in an enduring farm prosperity. His is the most optimistic note we have heard concerning agriculture in recent years, and as it comes from a man with extensive first-hand contacts with the most difficult farming problems it must be given serious consideration by all students of agricultural affairs. The volume is a very personal account of the author's experiences in making farms pay, and of the philosophy growing out of these experiences. Let it be hoped that Mr. Claassen will follow

with an objective exposition of the organization and operation of a group management enterprise. Such a book will be much duller than this but it would probably prove of more enduring worth to those interested in the progress of a development which carries great promise.

A. G. Black

Clark, F. E. and Weld, L. D. H. *Marketing agricultural products in the United States*. (New York: Macmillan. 1932. Pp. xiv, 672. $4.25.)

Gumperz, J. *Die Agrarkrise in den Vereinigten Staaten*. (Leipzig: Hans Buske. 1931. Pp. xii, 182. Rm. 11.)

Hannay, A. M., compiler. *The influence of weather on crops: 1900-1930. A selected and annotated bibliography*. U. S. Dept. of Agric. misc. pub. no. 118. (Washington: Supt. Docs. 1931. Pp. 246. 40c.)

Hantos, E. *Das mitteleuropäische Agrarproblem und seine Lösung*. (Berlin: Organisation Verlagsgesellschaft. 1931. Pp. 95.)

Hobson, A. *The International Institute of Agriculture: a historical and critical analysis of its organization, activities and policies of administration*. Vol. II. (Berkeley: Univ. of California Press. 1931. Pp. 356.)

Holtzclaw, H. F. *Agricultural marketing*. (New York: Ronald. 1931. Pp. xi, 429. $3.50.)

Agricultural marketing has achieved a dignified place in the field of marketing study. Interest has been aroused by the successful marketing exploits of agricultural coöperative associations and the unique schemes of the Federal Farm Board as provided for in the Agricultural Marketing act.

Dr. Holtzclaw's book capitalizes on this present interest in the question. The approach of the author, however, is little different from that found in the other general textbooks on the subject, although more recent material is presented. The plan of the book provides for seven chapters which set forth the principles of marketing "essentially as given in the usual courses in the general subject," seven chapters which discuss the marketing of the main classes of agricultural products, nine chapters which are devoted to a "detailed consideration of the various functions of the agricultural marketing process," and two chapters on market prices and marketing costs.

There is little original material in the first seven chapters and much that is stereotyped. The style suggests that the author is attempting to adapt the general texts in marketing to the field of agriculture. This is apparent from the author's reliance on authorities in the regular marketing field. The seven chapters on the marketing problems of the main classes of agricultural products are over-loaded with material of a general nature. The approach is more descriptive than direct. The author in his discussion of these separate commodities accepts the coöperative method as part of the agricultural marketing structure—a sensible way of treating the subject.

To the reviewer, it appears that the chapters on the functioning of the marketing process should precede and not follow the discussion of marketing for the various agricultural commodities. Such subjects as "Transportation," "Storage," "Credit and finance," "Marketing risks," "Produce exchanges," "Specialization," "Standardization," and "Grading and inspection" should more properly be considered for the field as a whole preliminary to the problem treatment for the various classes of agricultural

products. These chapters are simply written and suggestive, although often filled with nondescript material.

The reviewer believes that the author should have included a general summary chapter on the problems of agricultural marketing, for the reader is given much information but little critical discussion. It is to be noted that the author has practically avoided discussion of the controversial issues raised by the operations of the Federal Farm Board. The Farm Board is treated as a going concern, not as an agricultural marketing problem.

JOSEPH G. KNAPP

HOPKINS, G. R. *Petroleum refinery statistics, 1929*. U. S. Dept. of Commerce, bull. 339. (Washington: Supt. Docs. 1931. 30c.)

JONES, A. and MAKINS, S. M. *Some aspects of meat distribution and consumption: a study based on conditions in Loughborough, 1930*. Survey stud. 2. (Nottingham: Midland Agric. Coll. 1931. Pp. 93. 2s.)

LAWRENCE, J. C. *The world's struggle with rubber, 1905-1931*. (New York: Harper. 1931. Pp. vii, 151. $3.)

MCAULIFFE, E. *The romance and tragedy of coal*. (Omaha, Neb.: Colonial Press. 1931. Pp. 97.)

MOULTON, E. S. *Cotton production and distribution in the Gulf Southwest. Part III of the commercial survey of the Gulf Southwest*. Domestic commerce ser. no. 49. (Washington: Supt. Docs. 1931. Pp. 311.)

OSTROLENK, B. *The surplus farmer*. (New York: Harper. 1932. Pp. xvii, 135. $1.50.)

RITTER, K. *Die Krise der deutschen Agrarpolitik*. Agrarpolitische Aufsätze und Vorträge, Heft 17. (Berlin: P. Parey. 1931. Pp. 46.)

SERING, M. *Die deutsche Landwirtschaft unter volks und weltwirtschaftlichen Gesichtspunkten*. (Berlin: P. Parey. 1932. Pp. 1067. RM. 62.)

SKILBECK, D. *The marketing of farm produce*. Part III. *Hops*. (New York: Oxford. 1931. Pp. 59. 85c.)

SPENCER, L. *An economic survey of the Los Angeles milk market*. Bull. 513. (Berkeley: Ginannini Found. of Agric. Econ. 1931. Pp. 106.)

STAUBER, B. R. *The farm real estate situation, 1930-31*. U. S. Dept. of Agric. circ. no. 209. (Washington: Supt. Docs. 1931. Pp. 68.)

TERPENNING, W. A. *Village and open-country neighborhoods*. Soc. sci. ser. (New York: Century. 1931. Pp. 493.)

THOMAS, S. E. *British banks and agriculture*. (London: London General Press. 1931. Pp. 47.)

TRYON, F. G. and MANN, L. *Coal in 1929*. Mineral resources of the United States, 1929, Part II. (Washington: Supt. Docs. 1931. Pp. 673-858. 35c.)

WILCOX, R. H., and others. *Management factors that influence farm profits in southwest Illinois: a study based on records from more than a hundred farms in the wheat and dairy area neighboring St. Louis*. Agric. Exp. Sta. bull. 374. (Urbana: Univ. of Illinois. 1931. Pp. 52.)

Agricultural coöperation in Ireland: a survey. (London: Routledge. 1931. Pp. 424.)

The agricultural outlook for the Southern States, 1931-32. U. S. Dept. of Agric., misc. pub. no. 137. (Washington: Supt. Docs. 1931. Pp. 56. 10c.)

Live stock and animal products statistics, 1930. (Ottawa: H. M. Sationery Office. 1931. Pp. 110. 25c.)

Petroleum facts and figures. 4th ed. Prepared by Public Relations Dept.,

American Petroleum Institute. (Baltimore: Lord Baltimore Press. 1931. Pp. xiv, 268.)

Report of a joint committee on agricultural policy with special reference to British manufacturing industry and imperial coöperation. (London: H. M. Stationery Office. 1931. Pp. 52.)

Wheat studies. Vol. VIII, No. 1. *Cycles in wheat prices.* No. 2. *The world wheat situation, 1930-31: a review of the crop year.* No. 3. *Survey of the wheat situation, August to November, 1931.* (Stanford Univ., Calif.: Food Research Institute. 1931, 1931, 1932. Pp. 66; 67-198; 199-260. $1.50; $2; $1.)

Manufacturing Industries

NEW BOOKS

Clausing, G. *Die Uebererzeugung in der Ziegelei von 1867 bis 1913.* Beiträge zur Erforschung der wirtschaftlichen Wechsellagen Aufschwung, Krise, Stockung, Heft 4. (Jena: Fischer. 1931. Pp. viii, 193. Rmk. 8.)

Karch, R. R. *Printing and the allied trades.* (New York: Pitman. 1931. Pp. xii, 226.)

McCallum, E. D. *The iron and steel industry in the United States: a study in industrial organization.* (London: P. S. King. Pp. 336. 12s. 6d.)

American Iron and Steel Institute: annual statistical report for 1930. (New York: American Iron and Steel Institute. 1931. Pp. vi, 120.)

The electric light and power industry in the United States, with chapters on the electric railway and gas industries, and an up-to-date bibliography of public utility references. Rev. to Jan. 1, 1931. (New York: Nat. Electric Light Assoc. 1931. Pp. 188. $1.75.)

National Fertilizer Association: proceedings of the seventh annual convention held at White Sulphur Springs, West Virginia, June 8-11, 1931. (Washington: National Fertilizer Assoc. 1931. Pp. 106.)

The story of hosiery. (Burlington, N.C.: May Hosiery Mills. 1931. Pp. 101.)

Transportation and Communication

NEW BOOKS

Ambler, C. H. *A history of transportation in the Ohio Valley, with special reference to its waterways, trade, and commerce from the earliest period to the present time.* (Glendale, Calif.: Arthur H. Clark. Pp. 500. $7.50.)

Aust, F. A., and others. *A method of making short traffic counts and estimating traffic circulation in urban areas.* Bull. no. 1534. (Madison: Univ. of Wisconsin. 1931. Pp. 57.)

Durrenberger, J. A. *Turnpikes: a study of the toll road movement in the middle Atlantic states and Maryland.* (Valdosta, Ga.: Author, 1517 Williams St. Pp. 188. $2.50.)

Hallberg, C. W. *The Suez Canal: its history and diplomatic importance.* Stud. in hist., econ. and public law, no. 348. (New York: Columbia Univ. Press. Pp. 434. $5.25.)

Hawks, E. *The romance of transport.* (New York: Crowell. Pp. 332. $3.)

Sharfman, I. L. *The Interstate Commerce Commission: a study in administrative law and procedure.* Part II. (New York: Commonwealth Fund. 1931. Pp. xiv, 533. $4.50.)

Whitridge, H. L. *The I.C.C. vs. Class I railroads of the United States: the*

nullification of the Transportation act. (New York: Simmons Boardman. Pp. 174. $1.50.)

The motor industry of Great Britain. (London: Society of Motor Manufacturers and Traders. 1931. Pp. 143. 2s. 6d.)

Statistics of railways of Class I, United States (1920-1930). (Washington: Bureau of Railway Economics. 1931. Pp. 12.)

Trade, Commerce, and Commercial Crises

The Course and Phases of the World Economic Depression. Report presented to the Assembly of the League of Nations. Rev. ed. (Geneva: League of Nations. Boston: World Peace Foundation. 1931. Pp. 355. $3.00.)

By carefully sifting the work already done by national research institutions, by coördinating, interpreting and supplementing the results thus obtained, the Economic and Financial Section of the League of Nations has made a noteworthy contribution to our knowledge of world economic conditions during the last decade. *The Course and Phases of the World Economic Depression* was prepared by Professor Ohlin of the University of Stockholm in coöperation with the Economic Intelligence Service of the League and various representatives of the different nations. The first three chapters deal with the economic changes of the post-war period up to 1928; the next four chapters are devoted to an analysis of the course of events from 1929 to the early part of 1931; the concluding chapter carries the study into the summer and autumn of last year. The report may be regarded as an attempt to explain the depth, the breadth and the length of the present depression.

Its extraordinary depth is attributed to structural changes and incomplete adjustments in the years immediately preceding 1929. Surplus productive capacity in important industries producing foodstuffs, raw materials and manufactures, large quantities of commodities in the hands of loose monopolistic organizations, abnormal relationships between certain prices, the sudden reappearance of Russia in world markets, and the disturbing influence of national tariff barriers—these sources of instability lowered the resistance of our economic system to the onslaught of a business cycle recession and must be held responsible for the severity of the decline. Disease descended upon us at a time when we were in a weakened condition: what otherwise might have been only a severe cold developed into an attack of pneumonia.

The explanation of the breadth of the depression, the reasons why it spread throughout "the whole compass of the globe" are to be found in overproduction that reduced the purchasing power of certain countries such as Australia, Canada, Brazil and the Argentine upon whom others were dependent for their markets, and in the sudden stemming of the export of capital from the United States and other lending nations. In

these countries and in Germany, where original recession occurred in manufacturing, the causes of disturbance were mainly internal. In others, original disturbance came from outside: in the United Kingdom, Japan, Poland, Austria and Czechslovakia, especially sensitive to foreign influences, the depression arrived with little delay; in France, Switzerland, the Baltic and Scandinavian countries, relatively insensitive to foreign influences, the repercussions were postponed and moderated.

The long duration of the depression is accounted for partly in terms of the same causes that are responsible for its unparalleled depth and breadth and partly as a result of the financial crisis of 1931 that placed additional obstacles in the path of recovery. Owing to a decline in the credit of countries producing raw materials and foodstuffs there was a reduction in the volume of long-term lending which debtor nations attempted to replace with short-term loans. This change from long to short-term borrowing placed the world in a vulnerable financial position. The further decline in commodity prices accompanied by a widespread feeling of political insecurity led to a breakdown of confidence and a withdrawal of short-term funds. These factors combined to precipitate a financial crisis. Large amounts of the assets of lending banks became frozen and a number of countries left the gold standard.

This book is well worth a careful reading. Because of its coöperative nature, theoretical generalizations are advanced with extreme caution. Emphasis is laid on the decline in the volume of new investment as a cause of the business cycle recession. The failure of any tendency for increased investment in 1931 is attributed to previous overproduction and surplus capacity, to the cessation of international borrowing and lending, to the maladjustment of prices and cost items, and to the inflexibility of national credit structures.

RALPH E. FREEMAN

Massachusetts Institute of Technology

The Cuban Situation and Our Treaty Relations. By PHILIP G. WRIGHT. (Washington: Brookings Institution. 1931. Pp. xiv, 207. $2.50.)

Few statistical studies are as readable as this on the effect of our treaty relations with Cuba upon Cuban social life and on our trade relations with the island. The first two chapters survey the political and economic factors which explain American interests in Cuba and analyze the Platt Amendment and the reciprocity treaty which have grown out of them. The rest of the book sets out the growth of the sugar industry and the effect of the two treaties on the foreign trade and the life of the people.

The book is to be recommended especially to those who still believe that United States policy has conferred unqualified benefits on the island and

to those who feel that the American sugar policy has been logical and economically sound. The Platt Amendment under the author's analysis receives gentler treatment than is accorded it by many critics. Without it Cuba's development would have been less marked and the repeal of the "Permanent Treaty" in which the provisions of the "Amendment" are now crystallized would gratify many patriotic Cubans but might not contribute to the national strength.

The effect of the reciprocity treaty is analyzed at length. It was an undoubted benefit to Cuban sugar exporters up to about 1909. Thereafter, as Cuba became more than able to supply the American market, its effect dwindled. At present the tariff concession granted Cuban sugar is a farce. We import foreign sugars for consumption practically only from Cuba. The Cuban rate has become the basic rate. Cuba, especially due to the World War, has outrun its market and has now to sell on world price levels. Meanwhile tariff rates on Cuban products—especially sugar—have tended upward. While Cuba technically is better treated by the American tariff than any other country, in fact it is one of the most heavily burdened. On the other hand, our high tariffs have produced price levels which have decreased the advantages to our exporters which we hoped to secure through the reciprocity treaty.

The sugar industry has come to its present position, in part at least, because of the treaties between the United States and Cuba, though there are other important influences not to be overlooked. Its economic and social effects in the island are unfortunate. It has attracted capital and initiative at the expense of other industries. Large-scale operation has become typical. Small ownership tends to disappear and economic serfdom to establish itself. Subsidiary industries have become relatively unimportant, either for export trade or domestic supply. Cuba has become more and more a one-crop country, though this, its resources show, it need not be.

The author has amply demonstrated that the treaties with the United States have had an important and not uniformly beneficial influence on Cuba. They have assured fair public order, stimulated investment, and emphasized sugar production; but sugar production has put Cuba and Cubans in weak social and economic positions.

Whether development would have taken much the same direction in any case and what can now be done by Cuba alone or in coöperation with other nations to improve the position of the republic are not discussed.

Chester Lloyd Jones

University of Wisconsin

NEW BOOKS

Bogdanov, P. A. *A statement on Soviet-American trade.* (New York: Amtorg Trading Corp., 261 5th Ave. 1931. Pp. 15.)

Cantillon, R. *Essai sur la nature du commerce en général.* Translated by H. Higgs. (London: Royal Economic Society. Pp. 394. 15s.)

Einzig, P. *The world economic crisis, 1929-1931.* (New York: Macmillan. 1931. Pp. xii, 165. $2.75.)

In 24 chapters and about 100 pages of type, Dr. Einzig discusses the causes of the crisis, the way out of the present difficulty, and the method which must be followed to attain permanent stability. In his preface, the author declares that his efforts are addressed to the man in the street, that he has avoided charts, statistical tables and quotations in order to make the book more readable, and that "there is nothing mysterious about the crisis" but that the explanation "can certainly be understood by anybody of average intelligence."

The author then takes the position that a great many of the suggestions which have been offered contain some truth and briefly presents the psychological theory of business cycles, the need to return to the pre-war price level, overproduction, underconsumption, monetary conditions with particular reference to the maldistribution of gold, uneven growth as disturbing equilibrium, financial scandals, as well as four so-called independent factors—technical developments in agriculture, demonetization of silver, the suspension of American foreign lending, and Soviet activities. Thus are thoroughly and completely mixed the basic factors bringing the downturn, the immediate causes of the downturn, and factors which then developed to make the depression so long and severe. As significant particular factors, the author emphasizes the Wall Street speculation, the gold policy of France, and Soviet activity. The method is often decidedly unscientific, even employing innuendo. For example (p. 64), the author reports the discrediting of the rumor that Soviet activity had spread adverse reports concerning a well-known continental bank. "This, however, does not necessarily mean that Soviet agents had no hand in engineering the runs upon banks in the United States towards the end of 1930."

In searching the chapters dealing with the way out, one finds various favorable factors listed, but normal conditions cannot be restored until the disequilibrium of prices disappears. As a definite policy the author advises all-round lowering of costs of production, the reduction of capitalization, and the resumption of normal selling and purchasing. The government should undertake a moderate public works policy but should be careful to avoid inflation. "An expansion of credit would not in the least remedy our situation." Furthermore, demonetization of silver should be stopped. Finally, the nations should organize a defensive alliance against Soviet dumping.

Above all, the author feels that stability will be attained through widespread coöperation—not only coöperation between countries but between the government and producer, between various producers, between employers and employees, between producers, middlemen and consumers, and between the banks and these various agencies. If necessary the authorities should compel coöperation of various conflicting interests. As a final threat the author remarks that such coöperation is essential in order that our economic superiority over the Soviet system be maintained.

As the author remarks in the preface, there is little in this book for the professional economist. It is a fair question whether or not the man in the

street will find the puzzling problem of the crisis answered here to his satisfaction.
WILLARD L. THORP

HAWTREY, R. G. *Trade depression and the way out.* (London: Longmans Green. Pp. 84. 2s. 6d.)

JACK, D. T. *The crises of 1931.* (London: P. S. King. 1931. Pp. 60. 2s.)

KNICKERBOCKER, H. R. *Fighting the Red trade menace.* (New York: Dodd Mead. 1931. Pp. 300. $2.50.)

LEVY, H. *Die Grundlagen der Weltwirtschaft: eine Einführung in das internationale Wirtschaftsleben.* (Leipzig: Teubner. 1931. Pp. 253. RM. 6.40.)

This is an interesting introduction to the study of international economic relations. The volume is descriptive in character and contains little of the traditional theory. Dr. Levy's previously published studies in world trade, industrial agreements and commercial policy have given him an extensive background for such an outline and have supplied him with unusually rich illustrative material. The chapters on the world "supply" of foodstuffs, raw materials and manufactures are particularly well done. The space given to monetary factors seems rather scant. While there is little to interest the advanced student, this will be a valuable introduction for the beginner to a wide fund of information. Dr. Levy has added a bibliographical appendix that will increase its usefulness for such purposes.
HARRY D. GIDEONSE

LUKAS, E. *Weltkrise und deutsche Wirtschaft.* (Tübingen: Mohr. 1931. Pp. 67. M.2.)

MANOILESCO, M. *The theory of protection and international trade.* (London: P. S. King. 1931. Pp. xxxi, 262. 12s. 6d.)

MAZUR, P. M. *New roads to prosperity: the crisis and some ways out.* (New York: Viking Press. 1931. Pp. xiv, 194. $2.)

MISES, L. VON. *Die Ursachen der Wirtschaftskrise. Ein Vortrag.* (Tübingen: Mohr. 1931. Pp. 34. M. 1.80.)

This pamphlet presents with admirable clarity, but without detailed supporting argument, the essentials of the modern Austrian theory of business cycles, and an application of this theory to the special conditions of the present crisis. Professor Mises is a consistent nineteenth-century liberal who does not hesitate to follow the logic of theory to a practical conclusion.

Briefly, the author believes that market price offers a better guide to productive activity than does any system of authoritarian interference. Cyclical fluctuations of business activity originate in efforts to lower the interest rate artificially by the creation of circulating media not covered by gold. The artificial lowering of the interest rate makes businesses which would otherwise be unprofitable appear profitable; the initiation of these enterprises originates an upswing of business, but the community has not enough real resources to carry them through to completion. Inflation can not increase the supply of goods, and can only last so long as the opinion prevails that it will stop in the visible future. Once the conviction is established that inflation will not come to an end, a panic breaks out.

The present crisis is aggravated by the fact that artificial measures to lower interest rates have in recent years been supplemented by artificial measures to raise wages and raise prices, especially those of raw materials.

Billions are expended for useless attempts at valorization and for direct subvention of unprofitable raw material enterprises, and other billions granted them indirectly through tariffs and other price-raising devices. The increase in the productivity of raw material industries results only in embarrassment, because these price manipulations delay the development of industries to use the raw materials. Taxation policies, the expansion of the government personnel and the range of government activities have still further aggravated the maladjustment of industry.

The conditions of gold production have no bearing on the depression. The slow fall of prices which might result from a shortage of gold would not be a source of depression, nor would a rise in general prices necessarily be of any assistance to those industries whose position is not most unfavorable. Attempts to cure the crisis by further governmental interference with the course of trade and prices are bound to do more harm than good.

CHARLES O. HARDY

PHELPS, D. M. *Effect of the foreign market on the growth and stability of the American automobile industry.* Vol. III, no. 5. (Ann Arbor: Univ. of Michigan. 1931. Pp. vi, 554-728. $1.50.)

WILSON, R. *Capital imports and the terms of trade, examined in the light of sixty years of Australian borrowings.* (Melbourne: Melbourne Univ. Press. 1931. Pp. viii, 111.)

WRIGHT, P. G. *The American tariff and oriental trade.* (Chicago: Univ. of Chicago Press. 1931. Pp. 177. $2.)

Commerce extérieur de la République Tchécoslovaque en 1930. Part I. *Commerce spécial.* Vol. 73. (Prague: L'Office de Statistique de la République Tchécoslovaque. 1931. Pp. xxv, 226.)

Commerce yearbook, 1932. Vol. I. *United States.* (Washington: Supt. Docs. 1931. Pp. 716. $1.)

The course and phases of the world economic depression. Report presented to the Assembly of the League of Nations. Rev. ed. (Geneva: League of Nations. Boston: World Peace Foundation. 1931. Pp. 355. $3.)

Interstate Commerce Commission: 45th annual report. (Washington: Supt. Docs. 1931. Pp. 380. 85c.)

New Zealand: statistical report on trade and shipping in the Dominion of New Zealand, 1930. Part II. (Wellington: Census and Statistics Office. 1931. Pp. xvii, 101. 2s. 6d.)

Accounting, Business Methods, Investments and the Exchanges

NEW BOOKS

ARON, R. and DANDIEU, A. *Le cancer américain.* (Paris: Editions Rieder. 1931. Pp. 246. 15 fr.)

The very title of this book is a sweeping indictment of American business methods, and it is interesting to discover in the text that the cancer in question consists chiefly of Taylorism, Fordism, scientific management, and other forms of "Yankee" efficiency and mass production: a brutal, soulless, mechanistic materialism, continually proliferating and permeating the world with an alien growth and spirit subversive of other structures and cultures and surely bringing degeneration and ruin in its train.

Among the features or symptoms of the alleged disease the authors mention *en passant* quantitative production, civilization of technicians, industrial statistics, the religion of credit, the late speculative mania, the American origin of the world crisis, overproduction and unemployment, financial versus industrial capital, the power of publicity, managed currencies, the gold exchange standard, the federal reserve system, the Federal Farm Board, the fetish of the American standard of living, the Hawley tariff, the Dawes Plan, the Young Plan, the Hoover moratorium, the Bank for International Settlements, the American colonization of Europe, the cynicism and hypocrisy of American philanthropy. Evidently, the authors are well posted on American economic and social conditions, but the general effect is a caricature reminiscent of Thorstein Veblen, Upton Sinclair, and Sinclair Lewis, leading one to wonder what species of animus is back of such fierce indictment and diatribe.

The animus, apparently, arises from American interventions in the financial affairs of Europe, especially the moratorium lately proposed by President Hoover as a sacrifice to appease the gods. This is regarded as a strange and sinister manifestation of American imperialism and hypocritical philanthropy after the solemn ratification of the Young Plan as a final settlement of war debts satisfactory to all concerned. Whereupon the authors weep crocodile tears over the outrage to the high contracting parties, thus: "France and Germany, the two great spiritual powers of the world, find themselves by a monstrous paradox relegated to the background of a drama in which they are the mere playthings of a blind and cruel destiny of which the United States are at once the mummer and the executioner."

The authors profess that their book is not anti-American in the usual sense of that word, but merely directed against the menace of American business methods wherever found. Therefore, they hope for a revival in the United States of the anti-bank, anti-urban, and individualistic spirit of Jefferson; while for Europe they demand a spiritual awakening and revolution and a united action against technological tyranny and determinism for the preservation of those cultural and human values without which civilization cannot long endure.

Doubtless there are defects in American business methods and there is need of a spiritual awakening to vivify our soulless technology and blatant productivity; but it is strange that the authors should regard the progress of good management as a deadly menace to European civilization and not a notable contribution to the wealth and welfare of the world.

J. E. LeRossignol

Barton, L. M. *A study of all American markets, including all cities and towns of 1,000 population or more and all counties in the United States, arranged by markets and states.* 4th ed. (New York: Major Market Newspapers. 1931. Pp. vi, 706.)

Baxter, W. J. *Chain store distribution and management.* Rev. ed. (New York: Harper. 1931. Pp. 347. $5.)

Benge, E. J. *Cutting clerical costs.* (New York: McGraw-Hill. 1931. Pp. xiv, 327.)

Bolon, D. S. and Eckelberry, G. W. *Introduction to accounting.* (New York: Wiley. 1931. Pp. 572. $4.)

Brunstetter, M. R. *Business management in school systems of different*

sizes: a study of certain aspects of business management in nine New Jersey cities. (New York: Teachers Coll., Columbia Univ. 1931. Pp. vii, 135.)

Bullington, J. A. *Cost accounting for coal mines.* Official pubs., vol. xiii, no. 5. (New York: National Assoc. of Cost Accountants. 1931. Pp. 293-301. 75c.)

Burgess, K. F., and others. *The new Burgess commercial law.* (Chicago: Lyons & Carnahan. 1931. Pp. 541. $1.48.)

Chamberlain, L. and Hay, W. W. *Investment and speculation: studies of modern movements and basic principles.* (New York: Holt. 1931. Pp. xiii, 322. $3.)

Cherrington, H. *Business organization.* (Menasha, Wis.: Banta Pub. Co. 1931. Pp. 301.)

Daggett, H. S. *The community property system of Louisiana, with comparative studies.* Louisiana State Univ. and stud. no. 1. (Baton Rouge: Louisiana State Press. 1931. Pp. xiii, 237.)

Donald, W. J., and others, editors. *Handbook of business administration.* (New York: McGraw-Hill. 1931. Pp. 1752. $7.)

Driver, R. E. *Telephone accounting.* Official pubs., vol. xiii, no. 8. (New York: National Assoc. of Cost Accountants. 1931. Pp. 521-540. 75c.)

Dutton, H. P. *Principles of organization as applied to business.* (New York: McGraw-Hill. 1931. Pp. x, 315.)

"Approaches the problems of business from the engineering standpoint." Includes chapters on standardization, planning, the line organization, selection and training, incentive and discipline.

Edwards, B. and Park, J. W. *The marketing and distribution of fruits and vegetables by motor truck.* U. S. Dept. of Agric. tech. bull. no. 272. (Washington: Supt. Docs. 1931. Pp. 88. 20c.)

Field, E. G. *A standard cost system for a cotton mill.* Official pubs., vol. xiii, no. 7. (New York: National Assoc. of Cost Accountants. 1931. Pp. 431-445. 75c.)

Filsinger, E. B. *The new way to greater export profits.* (New York: Author, General Motors Bldg. 1931. Pp. 86. $1.)

Fiske, W. P. *Accounting for unused facilities.* Official pubs., vol. xiii, no. 6. (New York: National Assoc. of Cost Accountants. 1931. Pp. 355-369. 75c.)

Gardner, E. H. *The economics of advertising.* (Chicago: Author, Educational Committee of the Advertising Federation of America. 1931. Pp. 32.)

Hardy, C. O. *Risk and risk-bearing.* Rev. ed. (Chicago: Univ. of Chicago Press. 1931. Pp. xxi, 364.)

Land, S. L. *Trade associations, their services to education: a study of the function of the national trade association in the promotion of training in industry.* A thesis. (New York: Heating and Piping Contractors National Assoc. 1931. Pp. xii, 141.)

McCallum, E. D. *The iron and steel industry in the United States: a study in industrial organisation.* (London: P. S. King. 1931. Pp. 333. 12s. 6d.)

Magill, R. F., and Mendell, W. H., editors. *Cases on business organization.* Vol. I. (New York: Columbia Univ. School of Law. 1931. Pp. 651.)

Metzger, A. *Mechanical cost accounting for color printing.* Official pubs., vol. xiii, no. 4. (New York: National Assoc. of Cost Accountants. 1931. Pp. 225-240. 75c.)

Moore, B. V. and Hartmann, G. W., editors. *Readings in industrial psychology.* (New York: Appleton. 1931. Pp. 599. $5.)

Newton, F. A. *Report of rate structure committee. 1931 convention.* (New York: American Gas Assoc. 1931. Pp. 55.)

Contains the report of the committee and of sub-committees on thermal gas rates, industrial and competitive rates, presentation of stand-by-charge rates, water heating rates, rural and suburban gas main extensions.

Nystrom, P. H. *Economic principles of consumption.* (New York: Ronald. 1931. Pp. xi, 586.)

Olsen, P. C. *The merchandising of drug products.* (New York: Appleton. 1931. Pp. xv, 259.)

Reilly, W. J. *Effects of the advertising agency commission system.* (New York: Author, 230 Park Ave. 1931. Pp. 35. $1.)

Rhea, R. *Graphic charts: Dow-Jones daily stock averages and sales.* (New York: Macmillan. 1931. $12.50.)

Schmalz, C. N. *Operating results of shoe chains in 1929.* Bull. no. 86. (Boston: Harvard Univ. Bureau of Business Research. 1931. Pp. vii, 39. $2.50.)

Scott, W. D. and Howard, D. T. *The psychology of advertising.* Rev. ed. (New York: Dodd Mead. 1931. Pp. xi, 300.)

Scott, W. D., Clothier, R. C. and Mathewson, S. B. *Personnel management, principles, practices, and point of view.* 2nd ed. (New York: McGraw-Hill. 1931. Pp. xvi, 583. $4.)

Shewhart, W. A. *Economic control of quality of manufactured product.* (New York: Van Nostrand. 1931. Pp. xiv, 501. $6.50.)

Dr. Shewhart cannot be too highly praised or complimented for the outstanding contribution he has made toward the closer linking of economics and the engineering sciences. Through the application of statistical methods and the theory of probabilities to problems in business and industrial management, he has evolved practical techniques for establishing control limits for the essential qualities of any manufactured product, and for determining the extent to which any such quality can be continuously maintained in control at the least cost and with the greatest economy in time and effort. In fact, Dr. Shewhart has set an example of direction in thought, purpose and technique which should point the way toward the course which "management research" must follow in future. Management to a large extent has been considered an inexact science if ever one at all. Dr. Shewhart is in reality one of the pioneers in blazing the way toward a more exact knowledge of the behavior of the engineering or scientific, economic and social factors which management must relate and control.

Without doubt mathematics to a greater and greater extent will find its application to industrial problems involved in management. Wherever there is obviously no exact law governing such phenomena, the philosophy which underlies Dr. Shewhart's reasoning will in the long run be of even greater assistance than the methods which he has evolved in the more precise measurement and control of these factors.

The remarks of the reviewer need hardly be directed toward Dr. Shewhart's book in this instance, as no one can fail to recognize its great value as a compendium of theories and techniques for industry and as a textbook for our advanced engineering and business colleges. It seems rather of greater importance for the moment to look farther than the mere accomplishment and to emphasize the significance of this whole endeavor as typifying a new form of approach to management problems which has much portent for the future of management research. The author's position and

attainments, as a student and research worker on the staff of the Bell Telephone Laboratories, are already widely recognized.

FAIRFIELD E. RAYMOND

SLOAN, L. H. *Everyman and his common stocks: a study of long term investment policy.* (New York: McGraw-Hill. 1931. Pp. viii, 306. $2.50.)

STODDARD, W. L. *Financial racketeering and how to stop it.* (New York: Harper. 1931. Pp. ix, 217. $2.50.)

SUTHERLAND, W. R., compiler. *A debate handbook on chain stores and the ultimate consumer: a collection of papers and addresses concerning some social and economic aspects of chain-store merchandising and the prosperity of the ultimate consumer.* Ext. ser., vol. ix, no. 3. (Lexington: Univ. of Kentucky. 1930. Pp. 314.)

TILLMAN, C. *How to forecast a bull market.* (Boston: Economic Pubs. 1931. Pp. 245. $5.)

TOSDAL, H. R. *Problems in sales management.* New 3rd ed. (New York: McGraw-Hill. 1931. Pp. 968. $6.)

VAN BENTHUYSEN, A. S. *Newspaper organization and accounting.* (New York: Prentice-Hall. 1931. Pp. 544. $10.)

WALTERS, J. E. *Applied personnel administration.* (New York: Wiley. 1931. Pp. 338. $3.)

WHITE, P. *Marketing research technique.* (New York: Harper. 1931. Pp. x, 236. $4.)

Written to "serve as a manual of instruction for field workers." Covers market analysis, processes of research, personnel of field force, interviewing and the recording of observations, and tabulation of returns. Many practical examples are included.

WINFREY, R. *Automobile operating cost and mileage studies.* Bull. 106. (Ames: Iowa State Coll. 1931. Pp. 56.)

WINFREY, R. and KURTZ, E. B. *Life characteristics of physical property.* Bull. 103. (Ames: Iowa State Coll. 1931. Pp. 144.)

The credit manual of commercial laws, with diary. (New York: National Assoc. of Credit Men. 1932. Pp. 446. $4.)

Fortune's favorites: portraits of some American corporations selected from Fortune Magazine. (New York: Knopf. 1931. Pp. 350. $5.)

Investment banking in Chicago. Bull. no. 39. (Urbana: Univ. of Illinois. 1931. Pp. 63.)

Keane's manual of investment trusts, 1932. 5th annual ed. (New York: Keane's Financial Pubs. 1932. $25.)

Teaching engineering and business students to deal with men and manage industrial relations. Informal conference held March 28, 1931. (New York: Society for Promotion of Engineering Education. 1931. Pp. 40.)

Capital and Capitalistic Organization

Frankenstein, Incorporated. By I. MAURICE WORMSER. (New York: McGraw-Hill. 1931. Pp. ix, 242. $2.50.)

Mr. Wormser's book begins with two spirited and stimulating chapters on the history of corporations. Since it begins with classical conceptions, the treatment is necessarily at points somewhat sketchy. For

example it does not sufficiently notice that the family and the city are the only very close relatives of the corporation in classical Greece. Vinogradoff (see 2 Historical Jurisprudence, 113) has indeed doubted whether the Greeks had any ideas much like our corporation. An inscription (Corpus Inscriptionum Graecarum, 1569 a III) cited by Vinogradoff, dealing with a loan to a city, indicates how inevitable was the development of something much like our idea of a corporation for the business purposes of a Greek city state. The point is perhaps of more than pedantic significance. It may be that Greek theory about, and experience with, the city state are suggestive classical contributions to an understanding of modern corporate problems. Thus Thucydides (Book VIII, 97), praising Theramenes' short-lived, conservative, revolutionary government, made a typically Athenian observation that might perhaps be remembered by contemporary organizers of corporations and combinations: "For the fusion of the high and the low was effected with judgment, and this was what first enabled the state to raise up her head after her manifold disasters."

Following the historical chapters, are two rather conventional chapters on the nature of the corporation, which the busy reader might well omit. These chapters are succeeded in turn by the most interesting portion of the book, the four final chapters on problems of policy presented by the modern corporation.

The most effective section of this part deals with the relationships within a corporate organization. One matter which has been little emphasized by students of the subject, and to which Mr. Wormser might have given some space, is the position of the labor force in a corporation. It is probably beyond the powers of an ordinary corporation to spend any money for the benefit of its labor force, unless the expenditure can be expected also to result in money gains for its stockholders. (Hutton *vs.* West Cork Railroad Co., L. R. 23 Ch. Div. 654 (1883). See also 31 *Columbia Law Review,* 136.) The executive regards himself as simply an agent of the stockholders; and the more scattered the stockholders and the more conscientious the executive the more likely is he to take this position. Business practice and law alike tend to hinder the development of the corporation as an adequate instrumentality for an intelligent governing group.

The complex of relations between the stockholder, the corporation and its governors has been more adequately treated; and this forms the central theme of Mr. Wormser's book. A good many of the problems are necessarily skipped in a short popular treatment. The importance of the stockholder's right to employ an expert to inspect books is not mentioned. A possible argument that the contract of a stockholder with little voting control should be construed, in case of doubt, in a way most

favorable to the stockholder is not noticed (*cf.* Wabash Railroad Co. *vs.* Barclay, 280 U.S. 197; 1930.) The obligations owed to a minority, especially where the minority holds non-voting stock, by a majority in control, especially where the "majority" is a holding company, are not discussed. (*Cf.* Berle in 39 *Harvard Law Review* at 686 and 688 with Wood in 38 *Yale Law Journal* at 61-63, both of whose conflicting statements of the rule seem to the present reviewer erroneous.) There is little discussion of such refinements. There is on the other hand an effective presentation of the problem of the meaning of the obligations of good faith and due care in the relations between a corporation and its promoters, directors, and officers, and in the relations between investors and "bankers." One might have expected in this connection some discussion of the much debated question of the requirements which the obligation of good faith makes of an officer buying or selling the stock of his corporation. One might also have expected some discussion of the *de facto* power over the contract rights of widow and orphan bondholders, exercised by those in charge of a great receivership. The treatment of the question is however an adequate popular presentation of the importance of protecting small investors against the danger of abuse of power and carelessness on the part of corporation rulers.

In his suggestions as to what may be done to afford such protection, by rules of law, Mr. Wormser is of course on debatable ground. He declines to criticize the tendency to modify the strict requirement of complete disclosure of facts which is enforced in transactions between ordinary principal and agent but which has been relaxed in its application to the relationship between corporation and promoter, director, or officer. (Henderson *vs.* Plymouth Oil Co., 141 Atl. 197, 204; Del., 1928.) It seems not unlikely that a stiffening of this requirement, which would perhaps not interfere as much as is supposed with transactions between a corporation and its representatives, would do a good deal to develop a fuller sense of their responsibilities on the part of the rulers of industry. It seems indeed that if the requirements of a strict fiduciary standard of good faith and due care were developed to protect investors generally, and embodied in statute, and some provision made for aiding small investors in litigation, the remedy might be more effective than Mr. Wormser's proposal of administrative supervision of those transactions which are subject to abuse.

In his treatment of the problem of corporate combinations Mr. Wormser is affected by the natural and deserved vogue which "stabilization" plans are now having. His suggestions are two. One is the doubtful proposition that if a combination is justified by sound economic considerations it is not condemned by the Sherman act. The second is a form of the familiar proposal to exempt from criminal prosecution and civil action,

but not from dissolution proceedings, any combination which is approved by a strengthened Federal Trade Commission. There are, perhaps, other interesting possibilities. If the copper producers who recently negotiated a temporary world limitation agreement were to set their best ingenuity at work in devising a scheme which would stand permanently, they might give us our first effective international cartel. To be consistent with American traditions such an organization would have to provide for gradually increasing quotas to low-cost producers, and for an effective check on the power of the industry in the form of a body—which need not be an organ of the "state"—to represent the interests of laborers, consumers and others with special interests adverse to those of the governing group in the industry. If the "fusion of the high and the low" could be "effected with judgment" on such a grand scale, a suggestion of a new type of order in human affairs would come from the industry. As competition within the industry would be preserved, and monopoly power checked, such an organization affecting domestic interstate commerce, would perhaps even be legal under the present law.

Malcolm Sharp

University of Wisconsin

The Masquerade of Monopoly. By Frank A. Fetter. (New York: Harcourt Brace. 1931. Pp. xii, 464. $3.50.)

Concentration of Control in American Industry. By Harry W. Laidler. (New York: Crowell. 1931. Pp. xvi, 501. $3.75.)

Centuries ago one Vishnusharman, a wise and learned man, collected from the fables of the East the tales known to us as the *Panchatantra.* His purpose was to reform and educate three Indian princes who were in the opinion of their father, "supreme" blockheads. Now comes another wise and learned man from the East, a past president of the American Economic Association, who has collected from the records of courts and commissions another set of fables (and many facts). His purpose too is to reform and educate three sets of blockheads: lawyers, judges, and economists. In both cases the master seems convinced that his pupils have demonstrated themselves unyielding to less attractive educational methods, so that in both the teaching is delightfully entertaining. In the *Panchatantra,* the attempt is made to answer the question "how to win the utmost possible joy from life." In the *Masquerade of Monopoly* are undertaken the tasks of uncovering "the trail of the serpent" (monopoly hiding underneath the basing point system of prices, p. 198), and of guiding us back to a state of effective competition. But the reader of the 1931 volume will have no doubt that our modern Vishnusharman agrees fully with the Indian proverb:

> In houses where no snakes are found,
> One sleeps: or where the snakes are bound:
> But perfect rest is hard to win
> With serpents bobbing out and in.

The methods of the two teachers exhibit differences, however. The style adopted in the *Masquerade of Monopoly* smacks more of Mencken and Stuart Chase than of Vishnusharman. Chapter and section headings, such as "Integration without integrity" (p. 88), "Judicial somersaults" (p. 94), and "The marvels of logical catalysis" (p. 98) abound. With reference to recent activities of the Department of Justice in engaging "a small brigade of lawyers" to examine proposals of mergers submitted by corporations, we are told that these lawyers are "blind men in a dark cellar trying to read a strange language without learning the alphabet" (p. 420). In criticizing adversely the Supreme Court decision of 1920 refusing to dissolve the Steel Corporation, Professor Fetter says: "It is as if an incorporated Jean Valjean had stolen a suit of clothes—yes, a whole storeful of clothes—and, being caught with the goods, was not only let go scot-free but allowed to keep the loot because it would help make him a good citizen. This is easy for anyone to understand without special legal training. But the good Bishop forgave for the theft of his own goods, not those of the public" (p. 72).

And again on the same decision: "The Biblical phrases used by Chief Justice White twenty-two years before seem to have undergone a transformation so that they now read something like this: The rule exacts that the spirit which killeth a law of Congress, and not the letter which vivifies it, is the proper guide by which to interpret a statute correctly" (p. 73).

Supporting these multi-barbed statements are scores of pages of minute analysis of court records and decisions. This analysis presents the most devastating and the most convincing picture of inconsistencies, contradictions, and illogical conclusions in judicial reasoning on certain anti-trust act cases which the reviewer has ever seen. But these are not the major lapses of our judicial blockheads as Professor Fetter sees it; the crowning imbecility is their inability to pierce the veil of the basing point price system and see the serpent of monopoly behind.

In piercing the veil for us our author makes extensive use of his work on the Pittsburgh-plus plan of selling steel. As defined for the purposes of his analysis:

> Pittsburgh-plus is the term used first for a certain *method* of delivered price quotation in the steel industry, next for the actual *delivered price* at which a particular shipment of steel is sold, and finally for the *system* of prices resulting, in their territorial relations.
>
> Pittsburgh-plus as a *method of quotation* is the quoting to their customers by mills outside of Pittsburgh of delivered prices made up of a Pittsburgh

base price for goods, plus the freight that would have to be paid on those goods if they actually had to be shipped from Pittsburgh to their destination. The Pittsburgh-plus *system* of steel pricing is used to embrace, together with the system of actual prices, the whole complex of explicit and tacit understandings bringing about and maintaining prices more or less closely in accord with this method of quotations (p. 118).

By the use of charts and diagrams, extracts from evidence in the Federal Trade Commission hearings, an historical summary of markets, an explanation of the nature of competition and of the "economic law of market areas," Professor Fetter makes a convincing case that Pittsburgh-plus, and basing-point systems in general, are thoroughly pernicious in a would-be competitive society.

At this point many fairly well-informed persons would doubtless ask: "But isn't he whipping a dead horse? Pittsburgh-plus was abolished in 1924." Fetter's answer is an almost unqualified "No." Despite "substantial" decreases in steel prices, the evidence indicates the replacement of Pittsburgh-plus by "a system of multiple basing points" with many of the "uneconomic incidents of a single basing-point system" (p. 163). Further evidence indicates that the lumber, copper, cement, asphalt shingle and roofing, industrial alcohol, fertilizer, sewer pipe, range boiler, hollow building tile, and other industries are more or less contaminated by this system (pp. 192, 222, 235, 242).

But now that we have the serpent out in the broad light of day, how are we to bind, or exterminate, him? Stripped of some relatively minor qualifications and amplifications, Professor Fetter's solution is simple: enforce rigidly, with the help of economic experts, our anti-trust statutes (pp. 205, 395 *et seq.*, 409). And since the basing-point system resulting in discriminatory prices is the chief target of the attack, we find that action against it is the primary implement of satisfactory enforcement. "The sole necessary means for attaining a régime of non-discrimination is the requirement and enforcement of publicity for all prices in interstate commerce. Given a posted price, uniform to all at the announced place of sale and shipment of the goods, the plan would be in large measure self-enforcing, . . ." (p. 411). Supplemental to these proposals is another that behavior, not intent, be established as the judicial test of violations of the anti-trust acts (p. 413).

In sum then, the *Masquerade of Monopoly* is a thoroughgoing defense of the ideal of competition in trade; not *laissez-faire*, but enforced and regulated competition. The only clear-cut exceptions made are the railroads and public utilities in which experience has "abundantly proved that under the actual conditions competition had become ineffective or non-existent" (p. 182).

Now it must be noted that it is the "ideal" of competition which is

defended so vigorously (p. 265, *et al.*). Professor Fetter emphasizes the fact that the present industrial situation is "honeycombed with monopoly" (pp. 426, 427 *et al.*). And he points out that, "The period of pretty effective competitive industrial conditions in England and America from 1750 to 1850, instead of being a normal historical condition of trade, was rather a mere passing episode between the earlier stage of feudal custom, status, and monopolistic privileges . . . and the newer industrial feudalism of the last half-century . . ." (p. 266).

But despite this recognition that "effective competitive industrial conditions" are a "mere passing episode," Professor Fetter scornfully repudiates the notion that "competition is a state of war" inevitably leading toward combination, and characterizes that idea with "tools for use in social propaganda, such as Proudhon's dictum that 'property is theft' " (pp. 31, 210). Would it be entirely without basis to paraphrase the criticism of the federal courts on page 106 and ask whether the pupils of the twentieth century Vishnusharman in the recognition of the ephemeral character of competition "feel the hairy hand of the practical Esau," but in the arguments for the ideal system of competition hear only "the dulcet voice of the academic Jacob"?

Amongst the blind blockheads who are being instructed are those of us who have favored some modification of the anti-trust acts to permit regulated combination in the petroleum and bituminous coal industries. The solutions of the admitted wastes in petroleum offered us are: an "output tax of, say, 10 cents a gallon" on all oil produced, "keeping in public hands, henceforth, all under-surface minerals on the national lands," and "changes in state and federal land laws or in other ways" (p. 406). Obviously it is a little difficult to comment with a desirable degree of definiteness upon proposals which include such a generalization as "in other ways." (Is it perhaps one of those "weasel" phrases which are condemned so sharply when employed by judges, p. 79?) But at any rate one can safely say that such able students of the petroleum industry as Stocking and Ise would hold the specific proposals inadequate. In their opinion, shared by many, competition in the production of petroleum is a demonstrated failure. The geology of petroleum and the "ideal" competition of the elementary textbooks in economics are truly as immiscible as oil and water.

With reference to bituminous the chief difficulty is an "unsound policy of railroad freight rates" which can "only be cured by steady approach to the distance principle" in these rates "with enforcement of uniform prices by each producer at his plant" (p. 406). Again one is forced to query whether or not in his zeal for revealing the "serpent" Professor Fetter has not failed to give due weight to other factors strongly emphasized by other students. Certainly there is no mention in his book of

the technical changes in the industry which have greatly increased overhead costs, stimulated excess capacity, and—again in the opinion of many of us—helped to demonstrate the failure of competition.

Briefly stated, a growing group of economists is convinced that to a number of industries Professor Fetter's language concerning public utilities is precisely applicable: "Experience has abundantly proved that under the actual conditions competition has become ineffective or nonexistent." Nor are we likely to be moved from this position by the illustrations given us of the closest approximations to the ideal for which we are urged to fight. For example, we note (particularly on pp. 254, 255 and 266) laudatory references to a happy state of "effective competition" which prevailed pretty generally in England and the United States between 1750 and 1850, perhaps in "larger measure" between 1800 and 1850 than "ever before or since."

Now we have Professor Fetter's word for it that "an enlightened system of competition" (or "a defensible régime of private property," or both) is "not merely a multitude of physical agencies—markets, exchanges, stores, means of transportation and communication. . . . It is a cultural institution" (p. 266). And the book as a whole is ample proof of his sincere interest in the welfare of the mass of his fellow citizens. But in this instance again one must wonder how he fixed his eyes so intently upon the "local perpetual markets" and the "small independent shops" as to exclude from the focus of his observations the truly desperate conditions of large masses of English workmen, both rural and urban, in the period exhibited as a model. In the United States he doubtless has a better case, but many of his pupils are probably delighted to have escaped living in the British portion of the approximation to the ideal.

Decidedly more unhappy is the section headed "Wheat: an object lesson in competition" (pp. 292, *et seq.*). Granted, fully, that it presents a striking contrast to Pittsburgh-plus, and in this respect it serves the author's purpose admirably. But it must be remembered that he has another more fundamental purpose: to guide us back to the promised land of effective competition. It would be interesting to get the reactions of wheat farmers to this "practical object lesson" in the balancing of economic forces in a "system of truly competitive local prices" (pp. 298, 299). And in the light of the numerous occasions on which these farmers have been suffering from inability to market their crops while thousands and millions were suffering from lack of bread, is it inappropriate to query whether the history of wheat does not lead to other conclusions with respect to the competitive system more important than the one emphasized by Professor Fetter?

In the foregoing the reviewer has had no intention of classing himself with "apologists" for unregulated monopoly in private hands. He is,

however, more than sceptical of the possibility or desirability of attaining a state of "effective competition," since he believes competition is a demonstrated failure in other fields than those admitted by Professor Fetter. In this connection it is interesting to note that in the World War, when things had to be accomplished, the competitive ideal was pretty thoroughly scrapped for a system of coöperation. The wastes and duplications of competition (admitted in part in the *Masquerade of Monopoly*) were too obvious to be tolerated in that emergency. Doubtless, many mistakes were made and wastes there doubtless are in combination; but the net balance remained in favor of coördinated industrial activity in the minds of many thoughtful leaders in all the belligerent countries.

At the conclusion of their series of lessons, then, the reviewer believes that many of the pupils of the modern collector of fables will find themselves raising such questions as the following:

(1) Might it not have been wiser to confine the instruction to the uncovering of the "trail of the serpent"?

(2) It is not a fair inference from the evidence presented that "capitalism breeds combination," and that, consequently, the maintenance of an ideal state of competition is incompatible with capitalism?

(3) Should public policy toward business enterprise be guided by hope or by history?

An examination of Dr. Laidler's data in his *Concentration of Control in American Industry* fortifies both Professor Fetter's statements on the extent of monopoly and the questions just suggested. The book is an avowed attempt to do for post-war developments what Moody's *Truth about the Trusts* attempted a quarter century earlier, though it "makes no pretense at completeness." Nevertheless, those of us who have worked in this field as well as others with less specialized interests will find much of interest and value in its pages. After a brief historical sketch on "The development of big business" are four major sections on natural resources, public utilities, manufactures, and "finance-marketing-agriculture." The concluding section is divided into two parts: "The law and industrial concentration" and "Interpreting the trend." Within these categories are sections on oil, steel, coal, telephone, telegraph, radio, railroad, steamship, power, automobiles, tobacco, food, wearing apparel, entertainment, chemicals, "the money trust," chain stores, trade associations, and other fields of economic activity. The general outline of the picture of concentration painted is pretty generally known. Here many of the details are filled in for us and the story brought down to the summer of 1931.

Unfortunately, however, there are among these details a number of minor slips, some of them obviously careless proofreading. For example,

the last column in the table on page 175 (a numerical ranking of cars on the basis of 1930 sales) omits items 5 and 12, carries two cars ranked 34, and is added to get 100 per cent. On page 201 the Swift concern is omitted from the organizers of the National Packing Company; on page 281 "outside" stitching should read "outsole" stitching; on page 297 the "69 per cent" seems impossible.

CHARLES A. GULICK, JR.

University of California

NEW BOOKS

CLARK, J. D. *The federal trust policy.* Stud. in hist. and pol. sci., new ser., no. 15. (Baltimore: Johns Hopkins Press. 1931. Pp. v, 305. $2.75.)

Renewed emphasis has recently been given to the demand for the repeal or amendment of the anti-trust laws. The detailed survey of the federal trust policy by Professor John D. Clark, tracing the changing opinions of business men, economists, the courts, and the federal administration, is therefore particularly timely. The Sherman law was passed, the author shows, without reference to the prevailing economic opinion that combinations were inevitable and could not be prevented. The author then traces by numerous quotations and detailed references the changing opinions of economists after 1890, showing that many who had disapproved the act in 1890 finally gave approval fifteen or twenty years after its passage.

Contrary to the common belief, the author finds that there was no general interest in the trust problem in 1890. The number of state laws passed about that time directed against combinations was more the result of "fashion in current legislation" than of public excitement. In support of this belief, the author cites the brevity of the debate in Congress and the lack of interest in both houses, the small amount of public discussion, and the apathy of the attorneys-general after the law was passed.

The broad phases of judicial interpretation are traced, but the cases are not discussed in detail. From the low point of enforcement after the sugar case in 1895, the law was gradually strengthened in the decisions in the railway, Addyston Pipe, Northern Securities, and beef trust cases, culminating in the oil and tobacco cases in 1911. The oil and tobacco cases are notable, not for the rule of reason, as is often said, but for the successful termination of the struggle for the enforcement of the act against these powerful trusts. Likewise the steel corporation case did not represent a letdown in enforcement. "The decision was not so much an acquittal of the steel company as the placing of it upon probation."

The proposals for amendment of the law in the Roosevelt era and the discussions leading up to the Clayton act are discussed in detail, also recent proposals for amendment. After the reader has been through this maze of contradictory opinions and proposals, the last chapter in which the author sets forth his own opinion is particularly welcome. Here the author argues that competition still exists despite the present concentration in industry, that competition is not ruinous but results in constant expansion of our industrial equipment, and that any plan of regulating prices while permitting monopoly would be futile.

This book is valuable, not only for the great amount of information concerning the history of our trust policy, but also as a guide to the literature of the field.

RICHARD N. OWENS

CLAY, C. M. *Regulation of public utilities: a crucial problem in constitutional government.* (New York: Holt. 1932. Pp. xi, 309. $3.50.)

JONES, E. and BIGHAM, T. C. *Principles of public utilities.* (New York: Macmillan. 1931. Pp. xiv, 799. $4.25.)

LEVENE, A. and FELDMAN, G. J. *Does trade need anti-trust laws?* (New York: Long & Smith. 1931. Pp. viii, 144.)

NASH, L. R. *The economics of public utilities: a reference book for executives, investors, engineers, and students.* 2nd ed. (New York: McGraw-Hill. 1931. Pp. xvii, 508. $4.)

PINNER-HAMBURG, W. *Das Schlichtungskartell: ein Vorschlag für ein positives Kartellrecht.* (Berlin: Carl Heymanns. 1931. Pp. 44. RM. 3.)

VITO, F. *I sindacati industriali: cartelli e gruppi.* Pub. della Univ. Cattolica del Sacro Cuore, ser. terza, vol. ix. (Milan: Soc. Ed. "Vita e Pensiero." 1930. Pp. viii, 344.)

This volume is essentially a study of the economics of big business (trusts, cartels, etc.). It presents an excellent, although general and theoretical, discussion of big business in almost every conceivable form with emphasis upon European economic thought and policies. Part 1 surveys the literature upon cartels, syndicates, trusts, and other combinative forms of economic enterprise with special reference to German and Italian writers. Of the American writers in the field, the works of Eliot Jones and J. W. Jenks receive most frequent reference. Part 2 covers existing trends and practices in Europe. Problems of price control, limitation of production, industrial efficiency, and the relation of the business combination to the various stages of the business cycle are treated at some length. It is scarcely proper to state that a great advance in the thought upon this particular phase of the combination movement will be found in the volume. The purely philosophical question of whether the combinative movement has proved to be an impeding element or a stimulus to economic progress is not definitely concluded one way or another. The same observation may be recorded with respect to the discussion of another philosophical question as to whether the combination trend in business organization marks the sunset of capitalism as a general form of economic structure.

Students of the trust problem will find in this volume a well balanced discussion, surprisingly free from national emphasis, and scholarly in its inclusiveness.

FLOYD F. BURTCHETT

WARRINER, D. *Combines and rationalisation in Germany. 1924-1928.* (London: P. S. King. 1931. Pp. vii, 226. 10s. 6d.)

Appears to be primarily a collection of notes rather than a well arranged treatment of a subject with a clearly defined central theme.

WILLIAMS, J. H. *A cure for our Sherman act troubles: popular misconceptions—legal, economic, political.* Address delivered before the American Hardware Manufacturers Assoc. at Chicago, Ill., October, 1931. (New York: American Hardware Manuf. Assoc. 1931. Pp. 30.)

Labor and Labor Organizations

The International Labour Organisation: The First Decade. (London: Allen & Unwin. Boston: World Peace Foundation. 1931. Pp. 382. 12s. 6d.)

The International Labor Organization, in existence since 1919, has provided a careful account of its activities. The Organization, which was authorized by the Treaty of Versailles, works in close coöperation with the League of Nations. The permanent administrative and research agency, the International Labor Office, has headquarters at Geneva. "Correspondence offices" are situated in other parts of the world, including South America and the Orient; the second of these offices was that at Washington, established in May, 1920. Membership in the Organization is not contingent upon membership in the League of Nations; and a number of nations not belonging to the League send delegates to the annual conference. Each member nation is entitled to four delegates at the conference, two of whom are government spokesmen, while employers and workers, generally in their organized capacity, are each represented by one delegate. The conference debates and decides upon the items in an agenda which has been prepared by the Labor Office. Before the agenda reaches the conference it is subject to the approval of the governing body, comprised of twenty-four persons the majority of whom are from the leading industrial states.

In a limited sense, the conference may be regarded as a parliamentary body the primary function of which is to adopt draft conventions and recommendations embodying international standards of labor legislation. The convention bears some similarity to a treaty and must be submitted by the government of each member state to the legislative body holding the authority to make the proposed standards effective. Recommendations, as the name implies, are a milder form of pressure for improved standards; in general, they deal with somewhat more controversial subjects than those with which the conventions are typically concerned.

A leading element in the effort to secure improved labor standards is the vast amount of research carried on by the International Labor Office. Agencies and organizations in the United States have greatly benefited through the services of the Office—among them the United States Coal Commission, the National Bureau of Economic Research and the Ford Motor Company. The Ford Company requested that the Office undertake a study of living standards and costs of living in Europe in order that the wages of the Company's employees there might be adjusted to conform to the purchasing power of the wages paid its workers in the United States.

Albert Thomas, director of the International Labor Office, in his pref-

ace states that the writers preferred to be anonymous. He describes the "voice which finds expression here" as "a discreet, perhaps somewhat colorless voice, the voice of officials." It may be added that there is a maximum of cataloguing the various activities of the Organization but that interpretation below the level of surface indications is meager. Doubtless this is inevitable because of the official character of the publication. But of equal significance in explaining the amount and the nature of interpretation afforded the reader, would appear to be the emphasis upon "coöperation" and the need for "good will" among nations and between employers and workers. Thus motivated, the conflicts of interest which bulk large in all attempts to improve the standards of labor legislation must not be permitted too conspicuous a rôle in a publication of an agency dedicated to the task of discovering formulae that will compromise certain differences between managements and wage earners.

With respect, however, to certain aspects of the Organization's experience, we are permitted at least a partial view behind the scenes. For example, it is revealed that employing interests in the maritime shipping industry have been much antagonized in consequence of the convention concerning seamen's hours and conditions of work. Again, the opposition of the Russian Soviet government and its refusal to coöperate in the work of the Organization are discussed. But in these and in other matters where difficulties cannot be ignored, regret rather than indignation is expressed; and there is manifest a steadfast determination to overcome obstacles by patience and good will.

The absence of the United States from the Organization is regarded as a serious weakness. And evidently on this subject the authors are occasionally under a little strain in their systematic effort to maintain the language of friendly diplomacy; for this nation, on the basis of professed principles, is not fortified with nearly as good reasons for failure to join the Organization as the other most important absentee, Soviet Russia. Yet, as one becomes acquainted with the rather advanced standards for labor legislation embodied in the conventions and recommendations, one cannot but question how effective the participation of the United States would be in the work of the Organization. In part, this arises from our federal form of government which would often make rather meaningless the adoption of a convention, simply because the states and not the federal government are the constitutional agencies for enacting the proposed legislation.

Possibly an even more significant difficulty exists for the present: the unfavorable attitude still dominant in the United States toward much of the labor legislation sponsored by the Organization. Even the worker delegates, presumably those representing the point of view of the American Federation of Labor, probably would oppose such measures as com-

pulsory unemployment insurance (though on this a change may soon develop) and the legislative enactment of the eight-hour day for men. In fact, on such issues it is not inconceivable that the A.F. of L. delegates might line up in the Conference with those representing employer interests and vote against the position of union spokesmen from other nations. It is also worth realizing—whether or not the special grounds for opposition which appeal to the A.F. of L. are considered valid—that "the labor problem" is clearly rooted in causal factors much more basic than those concerning which the International Labor Organization seeks legislation. To the degree that the palliatives sponsored by the Organization function in a manner to prevent society from coming to grips with the economic maladjustments essentially responsible for widespread subliving standards throughout the world, the "accomplishments" of the Organization are a mixed gain.

This is not to minimize, however, the sincerity and fine spirit animating the Organization's permanent staff. The staff members are conscientiously engaged in the humanitarian task of attempting to improve the condition of workers, from the unskilled to the professional groups; and their research is of a commendably high quality. Incidentally, this volume would have been more valuable if there were an appendix of fifty to seventy-five pages summarizing the more important studies of the International Labor Office.

Lyle W. Cooper

Marquette University

The Labor Movement in Post-War France. By David J. Saposs. (New York: Columbia Univ. Press. 1931. Pp. 173. $6.00.)

Whatever happens in France in these days is of great interest to the entire world, as France holds the undisputed hegemony among continental countries and is one of the strongest bulwarks of capitalism. This book tells what has happened to the French labor movement since the World War, including in this term not only the trade unions, but the coöperatives, the labor parties, and labor legislation.

The story unfolded will come as a surprise to many Americans, as practically nothing has appeared in English about the French labor movement since, before the war, it was the most radical in Europe. In this respect, as in many others, a complete transformation was wrought by the war. "In pre-war days French trade unionism was the bold leader of Mediterranean syndicalism; today it is the ardent imitator of Western European trade unionism." Some of the revolutionary phrases remain; but the actual practices of the French trade unions, even including the Communist Confédération Générale du Travail Unitaire (C.G.T.U.), differ very little from those of the English, German, and American unions. The gen-

eral strike has passed into the limbo of unsupported theories and not even a trace is to be found of the pre-war anti-militarism of the French trade unions. Far from being anti-governmental, the Confédération Générale du Travail (C.G.T.) now has its greatest strength among the "functionaries" (government employees), and looks to the government for the accomplishment of many of its aims. The C.G.T. has become respectable, and enjoys many governmental favors. Yet the French trade unions as a whole have gained very little in membership since 1914 and, with some exceptions, have little real foothold in private industry. Before the war, France had the only unified trade-union movement on the continent; now there are four rival national trade-union organizations and some independent unions as well. France is the only country of western Europe in which there are vigorous Communist trade unions, but they still remain a minority. The French employers are well organized and generally refuse to deal with the trade unions.

As trade unions have quarrelled and lost ground in recent years, many of them have turned to the state for action. Great strides have been made in French labor legislation in recent years, culminating in the (general) social insurance law of 1930. France is still behind Germany and England in its labor legislation, but is assuming leadership in some respects. France has a national economic council, constituted of representatives of labor and industry, which, although merely advisory, appears to be really functioning. It also has set up mixed commissions to assist in the administration of various labor laws and "has institutionalized collective bargaining in many important industries."

France has a vigorous coöperative movement, which, while drawing much of its leadership from other elements, relies mainly upon working class support. Both consumers' and producers' coöperatives have made considerable headway since the war, the latter particularly in fields where the government is the principal customer.

The political labor movement, centering in the Socialist and Communist parties, has also made appreciable gains. Every election has disclosed an increase in the popular vote of these two parties of the left, and unless present signs fail they will make further gains in the general election in May, 1932. True to its syndicalist traditions, the C.G.T. has officially kept neutral in politics, and there is no such identity of personnel in the leadership of the trade unions and the labor parties as in England. In actual practice, however, the trade-union movement has come into close relations with the political parties of the left, and "it would seem that political activity is for the time being the most important aspect of the French labor movement."

Edwin E. Witte

Wisconsin Legislative Reference Library
Madison, Wisconsin

Labor Agreements in Coal Mines. By Louis Bloch. (New York: Russell Sage Foundation. 1931. Pp. 513. $2.00.)

In the years following the war the coal industry became a center of attention for those interested in labor problems. The repeated spectacular clashes between capital and labor in that industry invited examination of its structure and organization, and of the functioning of the miners' union. A number of specialized studies revealed a highly developed form of collective dealing in those regions where the United Mine Workers had long been recognized by the coal operators. Noteworthy was Arthur Suffern's *The Coal Miners' Struggle for Industrial Status*, published in 1926.

Louis Bloch's present volume is the result of his more intensive but similar investigation, begun in 1920 as one of the Russell Sage series dealing with "wage earners' participation in management." Its completion delayed until 1931, the volume describes joint dealing especially in the Illinois area as it was functioning up to 1930. This study is less historical in treatment than Suffern's book, but is more detailed in its analysis of the "case law" which has been built up through a long line of decisions in disputed cases.

The fact that joint action was still functioning in the Illinois coal fields as late as 1930 is immensely significant. In other formerly unionized areas union strength crumbled rapidly after the failure to renew the Jacksonville agreement in 1927. Even before that date the United Mine Workers were gradually losing ground, due to the depressed condition of the coal industry (which antedated the general depression), the encroaching competition of non-union areas, legal shackles and such other factors as union policies and leadership. In Illinois, however, the long habit of collective dealing was not easily broken. In September, 1928, the Illinois coal operators signed a new agreement; and at the time of the completion of Mr. Bloch's study the old joint machinery for settling disputes was functioning smoothly in that state despite the utter chaos elsewhere. To what extent joint action in the Illinois coal fields can survive is an open question.

Whatever the future, *Labor Agreements in Coal Mines* is a valuable piece of work. Its chief contribution is the very careful analysis of the thousands of decisions in disputed cases adjudicated by joint boards of miners and operators with an ultimate appeal (seldom used) to arbitration. From the more than ten thousand recorded cases Mr. Bloch presents a plentiful array of illustrations, and attempts to state the general "rules of law" which can be drawn from them. These rules built up through judicial interpretation of the "constitution" or "statute law" contained in the agreement, he sums up as the "Miners' Code." While the reviewer, because of special interest in the subject, found the case data given in this

book instructive, a doubt arose as to the value of quoting such a great number of cases practically verbatim from the published reports. For the casual student a few examples might perhaps have sufficed to show the methods of procedure and the kinds of evidence and reasoning employed.

The industrial code which has grown up in the bituminous coal industry of Illinois might gain in significance if compared with similar codes built up through similar or different methods in the same or other industries. Perhaps the Russell Sage series of monographs on "wage earners' participation in management" will in the end be chiefly valuable as the material for such a comparison—which may be in contemplation when the individual studies have been completed. More immediately Mr. Bloch might have given the present study added interest if he had attempted some comparison between the labor codes of unionized Illinois and the company-union coal mines of Colorado, as treated in an earlier Russell Sage study. At all events, students of labor problems, especially those interested in the extra-legal government and law which have grown up in unionized industries, will thank Mr. Bloch for a thoroughly workmanlike job covering an outstanding example in this field.

Elizabeth Brandeis

University of Wisconsin.

Book and Job Printing in Chicago. By Emily Clark Brown. (Chicago: Univ. of Chicago Press. 1931. Pp. xiii, 363. $3.00.)

Everyone who writes about economic planning, and this includes nearly everyone who writes, should be required to read carefully Miss Brown's study of half a century of collective bargaining in the book and job printing industry of Chicago. For Miss Brown is not engaged with large and little-considered plans, but with a description of the actual experience of planners in a part of a special industry limited to a single city. In this partial industry—as the title suggests it does not include newspaper printing—five employers' organizations have attempted to solve the interlocking problems of competition and employee organization and at least six trade unions have developed and more or less carried out plans of their own.

The book and job printing industry is still highly competitive in spite of the tendency to follow other industries in the direction of large-scale production with relatively heavy overhead costs. The compositors and pressmen have never been subordinated to machinery, while the feeders have become rather more than less skilled. The bookbinders, on the other hand, have lost the status they once had of highly skilled workmen.

Certain general conclusions may be drawn from this study which throw light on the problems of trade associations and trade unions:

(1) That in a competitive industry the organization of both em-

ployers and employees is necessary to protect each from the competition of low standard firms and their workers.

(2) That employer organization is as difficult to maintain as employee organization.

(3) That good business conditions favor, and bad business conditions destroy, organization on both sides.

(4) That the "closed shop" is not necessary to a trade union while the "open shop" puts nothing in the pocket of the employer, though it may give him the impression that he is not only a captain of industry but a general of business strategy.

Dr. Brown has done well to make the study one of industrial relations rather than one of either employer or employee organization. In this way she has created a more complete picture than can be made by attention solely to one side or the other. The story is detailed and comprehensive. No generalizations are indulged in and few conclusions are drawn. This leaves the reader free to draw his own conclusions but deprives him of the more satisfying valuations the author might have made. At least two interesting questions are raised by the record on which this reviewer would have liked the author's opinion: first, as to the probable future of collective bargaining in this industry; and, second, as to the possibilities and limitations of long-term contracts and arbitration.

It would seem from the record that collective bargaining is restricted to periods of comparative prosperity and to the middle group of firms which are neither large enough to go it on their own nor so small as to be irresponsible and beyond control; while long-term contracts seem to be unenforceable because, when business improves during the life of the contract, they cannot be enforced on the unions and when business declines they cannot be enforced on employers' organizations. Arbitration seems to move in two directions. When the unions and the employers' organizations are strong, the arbitrator accepts their agreed decisions and becomes a rubber stamp; and when they are weak, he usually splits the difference. In one case his decision is not real and in the other it is not valid. Perhaps these conclusions are unwarranted, but if they are it is largely the fault of the author that she did not head them off by conclusions of her own.

It should be recorded that craft unionism is not a serious weakness in the book and job printing industry. While most of the fighting is done by the compositors, the pressmen without much effort get what they want and the other crafts maintain a standard based on customary differentials which they could hardly establish by their own efforts. The industrial unionists will not like this, but that cannot be helped.

NORMAN J. WARE

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Frank Roney, Irish Rebel and California Labor Leader: An Autobiography. Edited by Ira B. Cross. (Berkeley: Univ. of California Press. 1931. Pp. xxxvi, 573. $5.50.)

The essential truth of Henry George's statement, "The history of the struggle for human rights will never be complete without the personal records of the men who occupied important positions on the firing line in the crucial period between 1880 and 1890," was brought home to Dr. Ira B. Cross soon after he began to gather material on the history and development of the California labor movement. He found that from the gold rush to the early nineties each successive wave of organization among the working men had been dominated by some one outstanding personality. Most of these individuals were dead and forgotten. By persevering he discovered the whereabouts of Frank Roney, the leader of the San Francisco labor movement from 1881 to 1886, whom he found a "veritable mine of information." Although then (in 1907) in his sixty-third year, Roney recalled with remarkable accuracy the events in which he had participated. Dr. Cross was so impressed with the historical and inspirational value of Roney's life history that he urged him again and again to put it in writing for the benefit of future generations, with the result that in 1913 Roney began his autobiography. It was finally turned over to Dr. Cross in November, 1924, two months before Roney's death.

Poverty made Roney a rebel. He rebelled against English rule in Ireland. When he came to America and discovered that the "land of so-called liberty . . . . held as much poverty and destitution as Ireland," he became an active trade-union propagandist. He was utterly unselfish in working for the cause of labor. For most of the years in which he was the leader and titular head of the San Francisco labor movement, he was working a twelve-hour day as a molder. The day's work done, he attended meetings night after night and when they were over, he wrote up the proceedings and took them to the newspaper offices before going home. For his services in behalf of the working men he received no remuneration. On the other hand, he gave so generously of his earnings to promote the cause that he was always in a state of "impecuniosity."

Roney had definite ideals for the trade-union movement. For these ideals he fought and suffered to the last. He believed that the working men were interested in more than material gains. He appealed to their better natures. He opposed the closed shop and the indiscriminate use of strikes and boycotts. He believed in conciliation and arbitration as a means for settling disputes. He advocated and promoted the formation of trade councils. He bitterly denounced the participation of union leaders in politics. Finally his outspoken opposition to some of the questionable political methods of his associates and to the use of the boycott as an organization weapon brought him into disrepute with the labor

movement. Resolutions branding him as a traitor were passed by the Federated Trades Council, of which he had long been president, and also by his own union, the iron molders. He had failed in his efforts to shape the world more nearly to his ideals; the very men for whom he had suffered had turned against him; but still he had the courage to go on with the good fight wherever opportunity presented.

Roney's history is well worth recording. It not only makes clearer our concept of the struggle attending the early attempts at trade-union organization, but it furnishes us an excellent background against which to project some of the present-day problems of organized labor. Dr. Cross has performed a real service in making this document available.

CLARA M. BEYER

Washington, D.C.

NEW BOOKS

AGGER, E. E. *The Labor Institute at Rutgers.* Reprinted from *American Federationist,* Aug., 1931. (New Brunswick, N. J.: Rutgers Univ. Bureau of Econ. and Business Research. 1931. Pp. 8.)

ATHOLL, DUCHESS OF. *The conscription of a people.* (New York: Columbia Univ. Press. London: Philip Allan. 1931. Pp. x, 206. $2.50.)

BEASLEY, N. *Men working: a story of the Goodyear Tire and Rubber Company.* (New York: Harper. 1931. Pp. 315. $3.)

BEVERIDGE, W. *Causes and cures of unemployment.* (London: Longmans Green. Pp. 70. 2s. 6d.)

BUEHLER, E. C., compiler. *Compulsory unemployment insurance.* (New York: Wilson. 1931. Pp. 295.)

BURSK, J. P. *Seasonal variations in employment in manufacturing industries: a statistical study based on census data.* Wharton School research stud., xiv. (Philadelphia: Univ. of Pennsylvania Press. 1931. Pp. xi, 197. $2.50.)

This volume is based on the monthly reports of the number of wage earners reported in the *Census of Manufactures* for the years 1904, 1909, 1914, 1919, 1921, 1923, and 1925. Careful study of the industrial classification followed by the Census Bureau disclosed that "ninety-nine out of one hundred and twenty-six industries showed evidence of a regular recurrence of seasonal movements, and for these industries seasonal indices were computed." Wherever possible comparisons were made with similar indices computed by the Federal Reserve Board and with similar data for the states of Ohio and Pennsylvania.

Certain defects in the census data are noted. Prominent among these is the "miscellaneous character" of the census classifications. "The combining of the employment figures for industries whose seasonal fluctuations are dissimilar gives rise to a cancellation of the peaks and troughs of employment in one industry by the troughs and peaks in another thus creating a false impression of stability of employment." There is recognition also of the effect geographical and regional differences may have in further "minimizing the intensity of the seasonal movements." One may suggest that the combining of the monthly employment figures of the individual plants inevitably has a similar effect.

Hence at the end of this painstaking study we do not get a measure of

Seasonal Variation of Employment in Manufacturing Industries. The author has regrouped the industries into those producing consumers' goods and those producing producers' goods. The first classification is again subdivided into those industries with elastic and those with inelastic demands. The percentage of seasonal range is computed for groups of industries in each classification. Such combinations defeat any attempts at measuring the extent of seasonal variations from the standpoint of their effect on wage earners. For example, a group of ten industries, producing goods dependent on climate under the general classification of consumers' goods with elastic demand, has a percentage seasonal range of 49.9. The extremes combined are canning fruits and vegetables with a percentage of 212.3 and rubber boots and shoes with 10.5 per cent. This is an extreme instance but suggestive of the method used.

CHARLES E. PERSONS

CUMMINS, E. E. *The labor problem in the United States.* (New York: Van Nostrand. 1932. Pp. xiii, 857. $3.50.)

DAS, R. K. *Woman labour in India.* Reprinted from the *International Labour Review,* Oct. and Nov., 1931. (Geneva: International Labour Office. 1931. Pp. 72.)

ESTES, G. *Railway employees united: a story of railroad brotherhoods.* (Portland, Ore.: Author. 1931. Pp. 79.)

FISHER, V. E. and HANNA, J. V. *The dissatisfied worker.* (New York: Macmillan. 1931. Pp. ix, 260. $2.50.)

Presenting an interesting point of view with respect to dissatisfied employees in industry, the authors commence by showing that one of the factors—little understood or sufficiently appreciated by industrial administrators—is the problem of emotional maladjustment as it relates to vocational maladjustment. The remainder of the book concerns itself with the nature and causes of emotional maladjustment and the common varieties of emotional maldevelopment. As it is important for the supervisor in the working situation to be able to detect among his workers those who are emotionally in discord with their work, the common symptoms attending emotional maladjustment are discussed. A chapter is devoted to emotional maladjustment and labor turnover. The authors conclude with a suggested mental hygiene program for industry.

The case which the authors develop rests on certain assumptions with regard to the nature of the individual. Two fundamental aspects of the individual are differentiated: certain drives, impulses or tendencies on one hand and certain adjustive mechanisms or activities on the other. The thinking processes belong to the latter aspect. The authors warn the reader against making the very common mistakes of assuming that the individual's overt behavior is motivated by his thinking processes. Both are rather expressions of the more fundamental drives.

This book is abundantly illustrated with concrete cases of individuals emotionally maladjusted. One gains, however, the impression that these cases are selected from typically clinical rather than from typically industrial situations. This impression left the reviewer with the question as to how far one can apply generalizations based on special cases of vocational maladjustment which find their way to the clinic to general cases of dissatisfaction among employees in industry. To conclude that all dissatisfaction among employees (not resulting from intellectual, technical or phy-

sical unfitness) arises from emotional immaturity or maldevelopment is to exclude those cases of dissatisfaction which may arise when the social or industrial organization fails to provide adequate controls or outlets for the expression, development and fulfillment of emotionally mature demands. It would have been interesting if the authors had directed their attention also to this area and had attempted to relate the emotional maldevelopment which they found among their dissatisfied workers to the social milieu of which it is also an expression. This is, however, just a wish of the reviewer that the authors had analyzed the problem further; it does not detract in the least from the merit of the book as it stands in illuminating a difficult problem.

F. J. Roethlisberger

Gagliardo, D. *Labor legislation in Kansas.* Kansas stud. in business, no. 14. (Lawrence: Univ. of Kansas Bureau of Business Research. 1931. Pp. 64.)

Gulick, C. A., Jr., editor. *Labor and other economic essays of Henry R. Seager.* (New York: Harper. 1931. Pp. xxi, 432. $3.50.)

Henderson, A. *Labour and the crisis.* Address delivered at Burnley, September, 1931. (London: The Labour Party. 1931. Pp. 15. 1½ d.)

Keynes, J. M., Pribram, K. and Phelan, E. J. *Unemployment as a world problem.* (Chicago: Univ. of Chicago Press. 1931. Pp. ix, 261. $3.)

These lectures, three by each of the authors, were delivered in 1931 on the Harris Foundation at the University of Chicago. They are published under the editorship of Quincy Wright who has contributed a foreword. Professor Keynes had for his assignment an "Economic analysis of unemployment." He saw "no reason to be in the slightest degree doubtful about the initiating causes of the slump." These were found following 1924 or 1925 in "an extraordinary willingness to borrow money for the purposes of new real investment at very high rates of interest." This high level of investment was proceeding up to the spring of 1929. In the subsequent cessation of this investment is found the explanation of the current business losses, of the reduction of output and of unemployment. For a full exposition of Professor Keynes' theory of the causation of depression his auditors were referred to his *Treatise on Money.* He states (p. 21.): "The whole matter may be summed up by saying that a boom is generated when investments exceed savings and a slump is generated when savings exceed investment." Being warned of the "many opportunities for misunderstanding" afforded by the brevity of his exposition no criticism will be ventured beyond the suggestion that there is found no intimation that the causes of crises vary at different periods or in different countries. We are told that the necessary step to cure our present ills is to restore the "volume of investments." Proposals to this end are: the restoration of confidence both to the lender and the borrower; new construction programs under the direct auspices of the public authorities; and a reduction in the long-term rate of interest.

Professor Pribram had for his general subject "World-unemployment and its problems." To every reader of this volume his line of attack on the causes of unemployment must stand out in marked contrast to that just discussed. For he finds that what is commonly called the "world crisis" is a "composite of different economic conditions which, combined in different ways and degrees, as a unit present the picture of a general economic upheaval" (p. 85). Emphasis is placed on the evils caused by restrictive

tariffs; on the interference of cartels and trade unions in price and wage adjustment; on undue credit expansion and subsequent contraction; on the unequal distribution of gold and price derangements; on the overproduction of raw material and foodstuffs; and on "rationalization" or technological progress. On all these subjects there is illuminating discussion and apt illustration. At the close there is a summation of the importance of the various factors in different sections and countries. For example, he finds: "Unemployment in the United States is mainly due to the breakdown of the credit system and to the heavy fall of the prices of agrarian produce as well as of other raw materials; and it is aggravated by the effects of a far-reaching and rapid process of rationalization."

In his final lecture Professor Pribram discussed measures of prevention and relief of unemployment. These are the familiar proposals: long range planning of public works; public employment exchanges; spreading available work through systematic short time. He emphasizes the practical difficulties encountered in the public works program. Lack of capital prevents such action in Germany. There is helpful discussion here of the vexed question of wage maintenance in time of depression. The line of attack is characteristic. It depends. Says Professor Pribram (p. 138), "It is hard to give a really plain answer to this difficult question, for a wide variety of consideration arises for different industries, for different countries, and for the different causes of unemployment."

To Mr. Phelan was assigned the subject of "International coöperation and unemployment." As chief of the Diplomatic Division of the International Labor Office since its foundation he was, perhaps naturally, concerned to explain the organization and activities of that body. Space is given to a summarization of the views expressed by labor, by employer and by governmental representatives at the International Labor Conference on Unemployment. This is done by way of illustrating the procedure in the Office. One conclusion, perhaps as significant as any deserves quotation: "It had been said that collaboration, to be effective, required sacrifices. That was true, but the essential sacrifices and those which were the most difficult to secure were those of deeply imbedded prejudices and preconceived ideas." Specific recommendations include: The organization of public employment exchange services; unemployment insurance; a properly planned policy of public works with agreements between governments for the execution of works of an international character.

Charles E. Persons

Kiddier, W. *The old trade unions.* (London: Allen and Unwin. 1930. 7s. 6d.)

Knoop, D. *The riddle of unemployment.* (New York: Macmillan. 1931. Pp. 200. $1.75.)

Laidler, H. W. *Unemployment and its remedies.* (New York: League for Industrial Democracy. 1931. Pp. 103. 15c.)

Lasorsa, G. *La statistica dei salari industriali in Italia.* (Padova: A. Milani. 1931. Pp. viii, 97.)

Loucks, W. N. *The stabilization of employment in Philadelphia through the long range planning of municipal improvement projects.* Wharton School research stud., xv. (Philadelphia: Univ. of Pennsylvania Press. 1931. Pp. xix, 341. $3.50.)

This is a thoroughgoing examination of the expenditures of Philadelphia

from 1919 to 1928; of the plans for future municipal improvements; of the procedure involved in carrying out these projects; and of the possibility of stabilizing employment in the city through the long range planning of municipal improvements. The concluding chapter has a "suggested program" to reach that end.

The conclusions stated are that Philadelphia has no lack of contemplated improvements "preponderantly of a non revenue producing" character. There is a total absence of any planned sequence in carrying out these improvements and a tendency to assume unlimited finances in the city treasury. The procedure is so complex that as it now stands it is unreasonable to expect action on any given project under five or six months.

No correlation is found, in the years examined, between unemployment and loan fund expenditures. To bring about such correlation requires planning and control. Fifty per cent of the expenditures might be shifted from prosperous to depressed years and half these funds would reach Philadelphia workers in the form of wages. On this basis 16.0 per cent of the city's unemployed could have been placed in employment in 1928; 15.5 in 1929 and 17.6 in 1930. The climatic conditions offer no obstacle. The city would probably have "benefited substantially" from the lower construction costs in years of depression. Such exact studies, based on adequate research are the foundation stories of the program of long range planning of public works.

Charles E. Persons

McCracken, D. *Strike injunctions in the new South.* (Chapel Hill: Univ. of North Carolina Press. 1931. Pp. xiv, 290. $3.)

Mitchell, G. S. *Textile unionism and the South.* (Chapel Hill: Univ. of North Carolina Press. 1931. Pp. vii, 92.)

The first chapter of this monograph, entitled "The northern unions," prepares the reader for the remaining chapters, including the conclusion. It is not alone an interesting brief history of northern unions in the textile industry but an interpretation of the inevitable results to be expected from internecine warfare among contending leaders and groups for the control of wage earners' allegiance in an industry dominated by machinery. "The whole tangled situation decidedly weakens unionism in the industry. It diverts attention from the problem of organizing, makes all the unions seem worthless to the outsiders, foredooms strikes to weak support and poor discipline, and alienates employers."

The second chapter deals with "The early movement in the South." The four periods of activity—1886-1890, 1898-1902, 1913-1921, and 1928-1930—are chiefly significant because the brief periods of activity are followed by longer periods of inactivity. Indeed the entire chapter is a chronicle of numerous attempts at union organization, beginning with an heroic gesture of good intentions and ending with a gasp of futility.

Chapter 3 on "Recent activity" continues the story of chapter 2 adding only the new flavors of communism and gunmen.

In a final brief chapter headed "Conclusions," the author accounts for the weakness of unionism in the South. Welfare work, mill villages with mill-paid public officials, the right of eviction, prevention of trespass, and even influence over churches through contributions to them, give the employers control over employees whose ignorance and farm background prevent the

development of group consciousness. "Enthusiasm of political authorities for industrial development has made them almost as intolerant as the mill owners" toward union growth.

In spite of history so well set forth by the author, he confesses to a sympathy with the efforts of the mill employees to form unions and concludes with a general note of optimism hardly justified by his own account.

H. E. H.

MULLEN, J. W. *Union scales of wages and hours of labor, 1929 and 1930, together with a directory of California reporting trade-unions.* Spec. bull. no. 4. (Sacramento: Calif. State Printing Office. 1931. Pp. 72.)

RANKIN, E. R., *compiler. Compulsory unemployment insurance: debate handbook.* Ext. bull., vol. xi, no. 3. (Chapel Hill: Univ. of North Carolina Press. 1931. Pp. 91. 50c.)

Prepared for the use of high school debating leagues. Of these there are now 25 states represented. Contains general, affirmative and negative references and a bibliography of 6 pages.

STEAD, W. H. and BJORNARAA, D. *Employment trends in St. Paul, Minneapolis and Duluth.* Bull. of Employment Stabilization Research Inst., vol. i, no. 2. (Minneapolis: Univ. of Minnesota Press. 1931. Pp. 134.)

STEVENSON, R. A. *The Minnesota unemployment research project.* Bull. of Employment Stabilization Research Inst., vol. i, no. 1. (Minneapolis: Univ. of Minnesota Press. 1931. Pp. 26.)

This is the "first of a series of forty to fifty reports to be issued by the Minnesota Stabilization Research Institute. These papers will be published at intervals of about two weeks during the succeeding two years." The first bulletin contains a concise statement of the organization of the Institute, the studies planned and the results aimed at. It is claimed for the Institute that its "project is unique in bringing to bear on a social problem the technique of such varied disciplines as economics, sociology, psychology, education and medicine." Three main projects are in process: "the study of the various aspects of unemployment, the experiments in individual diagnosis and retraining and the development of public employment agencies." In the first of these studies four major surveys are being carried on: (1) the individual case histories of 4,000 unemployed; (2) an industrial survey of "some five hundred firms covering manufacturing, transportation and public utilities, marketing, banking and finance"; (3) a job analysis survey covering "the occupations in a sufficient number of firms to give a cross section of all employed groups;" (4) a survey of business migrations. The experiments in individual diagnosis and retraining have an ambitious goal. It is intended to "test the hypothesis that the occupational distribution of human talents can be more economically and humanely accomplished by a process of vocational testing in relation to occupational specification." Four thousand unemployed persons will be carried through clinics organized in Minneapolis, St. Paul and Duluth. These individuals will, when possible, be readjusted in industry through a program of "diagnosis, classification, placement, or training." The general results aimed at by the Institute are perhaps conveniently summed up in the concluding words of the report: "It is intended by those sponsoring this study that the results will be utilized in the development of policies for the treatment of unemployment problems in the future."

CHARLES E. PERSONS

Thompson, L. A., compiler. *Injunctions in labor disputes: select list of recent references.* Supplement to bibliography in *Monthly Labor Review* for September, 1928. (Washington: Supt. Docs. 1931.)

Wright, Q., editor. *Unemployment as a world problem.* (Chicago: Univ. of Chicago Press. 1931. Pp. 269. $3.)

Abolition of fee-charging employment agencies. 16th sess., 1st discussion, (Geneva: International Labour Office. 1932. Pp. 139.)

Industrial relations: administration of policies and programs. (New York: National Industrial Conference Board. 1931. Pp. xii, 114. $2.)

This short volume is not "just another book on industrial relations." Nor is it an attempt to expound or explain various and sundry theories of employment relationships, nor is it a textbook of employment practice. It is, rather, a painstaking study whose purpose is set forth in its preface as the "gathering and classifying of evidence that would tend to show how industrial management regards its human relations problem and what procedure it has found most effective for insuring the penetration of its policy into every element of its organization."

It performs this task in an admirable fashion. The facts gathered from more than three hundred companies, large and small, are set forth clearly and concisely; they are summed up fairly and logically. In a few pages, the recent developments of industrial relations are sketched, with particular emphasis on the effects of the World War. Then follow chapters which discuss the evolution and administration of personnel programs and the interpretation of these programs to the employee.

The chapter which most richly deserves the attention of every industrial executive whose work in any way touches upon industrial relations activities is that entitled "Management's appraisal of industrial relations activities." Here, in a short twenty pages, is summed up the experiences of the concerns studied. Additions to industrial relations programs are listed and discussed. In like fashion, those activities which have been discontinued are also enumerated and discussed.

J. A. Garvey

Labor fact book. (New York: International Pubs. 1931. Pp. 222. $2.)

With the publication of this book all sections of labor opinion are now represented by handbooks. The socialists publish yearly the *American Year Book.* The *Handbook of Labor Statistics* published by the United States Department of Labor covers well the existing unions and their activities. The *Labor Fact Book* examines the ground from a communist point of view. Recognition of the value of research, of informed opinion, of intelligence, in waging labor's battle is made by the publication of these books, and indicates changed emphasis in the labor struggle.

The strength of the present volume, prepared by the Labor Research Association, is that it is informed with international intelligence. It views the United States and American labor organizations as a part of a world economic structure, against a background of world economic forces. One weakness of the American labor movement has lain in the apparent lack of awareness of the interdependence of economic units, called nations, and of the interconnecting zones of dollar influences and trade areas—all affecting the status and life of the American wage-earner at home.

A salient defect of this book lies in its refusal to record the technical

efficiency of American capitalism, or Russia's indebtedness to it. This handbook ignores technological achievements in the United States, beyond those of any other country in the world, and labor's contributions to these achievements. This myopia accounts for the curious use of the word fact by the authors. For example, the writers make much of the fact that the president of the American Federation of Labor draws a salary of $12,000 a year; yet, when it comes to a discussion of the Soviet Union, the same inequality of prerogatives as between soviet officials—their use of expensive automobiles, superior quarters, etc.—is not mentioned. Other inclusions and omissions reveal the evident bias of the Labor Research Association group. Like most apologists for Russia, they refuse to submit the soviet to the same rigid, rationalistic, scrutiny to which they put competing nations, types and forms. This is a common human failing. Social progress depends on something more than this. In Russia, in the United States, or anywhere else, in all climes and places, progress made is in proportion to a nation's collective ability to think impersonally. Management science depends upon this impersonality. Disinterested reporting is not a quality of this volume, even though it is called a fact book.

M. H. Hedges

The Labour Party: report of the 31st annual conference held in the Grand Hall, The Spa, Scarborough, October 5th to 8th, 1931. (London: Labour Party. 1931. Pp. 328.)

Report of the 12th National Congress of Labour Women. (London: Labour Party. 6d.)

Two unemployment insurance debates: resolved, that the several states should enact legislation providing for compulsory unemployment insurance. (New York: Noble & Noble. 1931. Pp. 106. $1.)

Two years of labour rule. (London: Labour Party. 3d.)

Money, Prices, Credit, and Banking

Exchange, Prices and Production in Hyperinflation: Germany, 1920-1923. By Frank D. Graham. (Princeton: Princeton University Press. 1931. Pp. xix, 362. $3.50.)

Dr. Graham's treatise on the German inflation is timely in providing a careful analysis of its causes, course and effects and of the many ineffective and the few effective remedies that were applied. But aside from its practical aspect the book has a permanent place in the development of monetary theory. It is fairly safe to assume that the German inflation will in the future remain the inflation "par excellence." In November, 1923, forty-two billion marks were worth but a single American cent. Never before had a currency fallen at so rapid a rate over such an extended period. All phenomena peculiar to periods of inflation could be observed as if under a magnifying glass: The relationships between the index of dollar-mark exchange and the German wholesale price index; the index numbers of wholesale prices for industrial raw materials, fin-

ished goods, exported goods, imported goods, retail prices, wages, rents; prices of stocks, bonds; insolvencies; promotions; physical volume of production, of imports, of exports, of railroad traffic, of consumption of food products, of construction of new buildings; unemployment indices; treasury bills discounted, issues of paper currency, federal revenues and expenditures; bank deposits and money in circulation; gold value of money in circulation and index of rate of monetary turnover.

The German inflation was started at the outbreak of the war with the suspension of specie payments and the permission for the Reichsbank to use discounted Treasury bills in lieu of commercial bills as the non-cash cover for Reichsbank notes. This emergency legislation paved the way for the inflation that was to come, but it did not differ greatly from the monetary war policies of all the other warring countries. Wholesale prices at the end of 1918 in Germany, the United States, Great Britain and France were respectively 2.45, 2.00, 2.30 and 3.53 times their pre-war height.

Why then did it take five years of further inflation of ever accelerating pace before Dr. Schacht without any foreign help created a stable currency? Why is the German mark today one of the three stable European currencies, while the English pound is the playball of international speculation? Was the German inflation a pre-determined and thoroughly performed trick to cheat the victors out of reparations? Did the inflation enrich Germany because it quickly regained its lost markets abroad and because it unloaded on foreign bull speculators billions of paper marks—or did Germany "bleed white?" What primary force constantly accelerated the inflation process? Did the unbalanced federal budget cause the mark to decline or did the decline of the mark prevent the revenues from ever catching up with the steadily mounting expenditures? Did the "flight from the mark" tend to depress the mark exchange? What is the difference between "capital export" and "capital flight"? Can the activities of large bear operators undermine a currency and thus succeed in bringing about the depreciation for which they risk their money? Or does a large bear position in a currency enable its stabilization without foreign help, because all the bears have to cover when the course of depreciation is once halted or even temporarily reversed?

These are only a few of the host of questions that are raised by Dr. Graham; all are discussed and many are answered. The reader may be disappointed not to find a definite answer to the "flight from the mark" and the "bear speculation" problems. But to many economic questions there is only one conscientious, even if disappointing, answer, "It all depends." Bear speculation may depress the exchange value of a currency, this depreciation in turn may reflect in rising domestic prices and mounting governmental expenditures, thus enforcing an increase of

note issues to satisfy currency demands. But there is always a considerable lag between exchange fluctuations and the domestic price levels and this lag is a constant inducement for bull operators. The depreciation of the mark was by no means constant. Several times the course of the mark quotation reversed its trend and rose sharply. As late as January, 1923, the mark exchange rose by 250 per cent in a fortnight. No wonder, if one realizes that on January 31, 1923, the total issue of paper currency was almost exactly two trillion (2,000,000,000,000) marks, representing at the exchange rate of that day only 172 million gold marks. The Reichsbank's gold reserve in its own vaults at that time was 954 million marks, enough to redeem the total paper circulation at the existing exchange rate more than five times over. Was the mark then a sale or a buy? It was plainly the political factor of the Ruhr invasion and the costly pursuit of passive resistance which frustrated the attempt of stabilization early in 1923.

Lack of space makes it impossible to discuss thoroughly even one of these many problems. A thorough study of the book seems simply indispensable to any student of monetary phenomena. The reviewer, having spent the decade of inflation in Germany, found Dr. Graham's treatise by far the most comprehensive analysis. But on the two most important conclusions from this analysis the author and the reviewer cannot but disagree. These conclusions are the following:

> I. If the computations in the preceding chapters may be trusted, the balance of *material* gains and losses, attributable to inflation, is distinctly on the side of gains. The returns from the sale of money abroad much more than balanced the losses on international trade in merchandise and capital items, and domestic production seems, on the whole, to have been substantially greater than would presumably have been achieved under a stable monetary standard (p. 321).
>
> II. The ethics of reparations will perhaps always be an open question but, on the possibility of payment and transfer, indisputable fact is laying an ardent controversy quietly to sleep. Nor is there any reason to suppose that the interest charges on the private debt obligations incurred by the Germans since 1924, or those which may hereafter be assumed, will obstruct the machinery of international finance. . . . No transfer problem has ever arisen out of *commercial* transactions in the past and there is no reason to believe that any such problem will appear in the future. . . . The play of prices brings about, under our very eyes, the adjustments which we were prone to believe can never be effected, and the secular growth of international trade, in spite of all obstacles thrust in its way by mercantilistic governments, gradually reduces the problems of the present to the commonplaces of the future (p. 325).

It would obviously be unfair to criticize the author's conclusions on other but purely theoretical grounds, by pointing out, for instance, that the assumption that no transfer problem exists as long as the standard of living in the debtor country can be lowered enough to depress prices

and to enable exports to jump over tariff walls, considers the inhabitants of the debtor country as rabbits in a laboratory. But aside from all "psychological" or "political" factors, the author's conclusions cannot be accepted, even if one meets him on his own grounds. In regard to Germany's balance of *material* gains and losses from the inflation process, the author gives insufficient weight to the transformation of working into fixed capital—a development from which the German capital market never recovered. And in regard to the transfer problem, the weighting of the "institutional frictions" appears to be insufficient also. Why did Peru, Bolivia, Chile, Brazil and Colombia default on their *commercial* obligations, in spite of the fact that payments are collected in domestic currency? The time element is rather important, after all. If a debtor country cannot transfer for a few years, it may—and in all probability will—prevent in the future the "oil of credit" from being available to "grind the machines of international finance."

Robert Weidenhammer

University of Minnesota

America Weighs Her Gold. By James H. Rogers. (New Haven: Yale Univ. Press. 1931. Pp. xiii, 245. $2.50.)

English economists have contributed more extensively than American to the literature of a monetary interpretation of the economic disturbances of recent years. The writings of Keynes, Hawtrey, Clay, Gregory, Robertson and Stamp illustrate various monetary approaches by the English group. It is gratifying to find Professor Rogers presenting a monetary point of view which has come to hold an important place in American studies and presenting this point of view in a lively, forceful style without sacrifice of careful and painstaking analysis.

Adopting an international attitude toward the problem of depression, Rogers takes the maldistribution of gold, involving over-concentration in the United States and France, as his point of departure. In part, this maldistribution is traced to disturbances in the international balance of payments, which, in turn, are traced to excessive tariff impediments to trade and to war debts and reparations. He finds the central banks of the world indisposed to attempt a policy of counteracting these disturbances by coördinated credit action. This reluctance to supply positive guidance in a disturbed credit world constitutes, according to the author, a sin of omission, a negative passivity, in a situation which called for deliberate restraints upon excesses and extremist tendencies. The consequence of declining to steer the ship is found in the deflation of 1930-1931, a deflation which was not held in moderation but which was permitted to get out of hand. The deflation, in turn, exaggerated the problems of the balance of payments between debtor and creditor countries and consti-

tuted a vicious circle of derangement and liquidation. Professor Rogers considers the extreme phases of the derangement as not only unnecessary but also as dangerous. One of the dangerous implications is the threat to the perpetuation of the gold standard. Writing some months before England abandoned the gold standard, the author found the elements of the situation pointing in the direction of a gold standard debacle. "Even his Golden Majesty's throne, however, is no longer so firmly fixed."

The proposition that moderation and restraint in the operation of the monetary standard are possible and desirable is one which stands in clearly defined contrast with the doctrine of many bankers, economists and officials that liquidation is a fever which must run its natural course uninterrupted and untrammeled. Professor Rogers has contributed an able exposition of the former theory. He has not attempted much in the way of subtle refinements of the theory of international exchange. He has not employed elaborate mathematical analysis of the pertinent statistical data. Instead, he has made a direct, common-sense case, readable to the layman as well as challenging to the academician.

The critic could quarrel with numerous technical details of the analysis; but the more useful emphasis in a work of this character is upon the broad objective of the author. Professor Rogers has clarified the monetary interpretation of the depression of 1929-1931; and it is as a fundamental approach to the problem that the task deserves to be judged.

LIONEL D. EDIE

New York City

The New York Money Market. Vol. I. *Origins and Development*. By MARGARET G. MYERS. (New York: Columbia Univ. Press. 1931. Pp. xv, 476. $5.00.)

Part 1 of this historical and critical study considers the development of the New York money market from the time of the Revolution up to 1863 when the National Banking act was passed; and Part 2 carries it down to 1913 when the Federal Reserve act received the sanction of Congress. The material is arranged by chapter-topics within each period and some of the topics are considered in each of the two parts of the book. Almost every chapter has a short summary; and each part has an excellent chapter summarizing the important aspects of the subject during each of the two periods. The material is well documented and a comprehensive bibliography is included.

Miss Myers begins by showing that Philadelphia was the money market for a short period, and explains how New York came to outstrip Philadelphia, though the latter was the seat of the Second Bank of the United States. In the development of the New York money market specialization arose in connection with new needs so that as time went on we had the call

loan market serving the needs of those speculating in securities, the commercial paper and foreign exchange market financing the needs of trade and commerce and the investment market developing to satisfy the demands of government and industry for long-term requirements. With the passage of time each of these became a more or less specialized market with wide ramifications and distinguishing techniques. Specialization and differentiation of functions prevailed in the development of the money market just as it has in other phases of human activity.

The author is not content to amalgamate a number of facts and figures. On the contrary, she shows relationships; and these are not merely relationships between the various subjects constituting the chapter titles but also between the subjects and related industrial and financial and political phenomena such as the opening of the Erie Canal, roads, the issue of the greenbacks, and Jackson's failure to renew the charter of the Second Bank of the United States. In fact, Miss Myers shows a deft touch in preserving a balance between her general subject and related events. Miss Myers has allowed herself considerable freedom in her interpretation of the term "money market." She adopts Bagehot's idea of "borrowed funds" which allows her a great deal of latitude and, consequently, she includes chapters dealing with the investment market. There is considerable justification for this freedom in a book dealing with origins and development; but it is to be hoped that the authors of the second volume will confine themselves to the market for short-time funds because the forces operating to determine the rate for these funds are quite distinct from those operating in the capital market.

It is unfortunate that the author did not choose to number her tables and to include them in the table of contents. The charts are included but unfortunately they are not numbered. This slight defect, however, does not impair the excellence of the book.

R. D. Kilborne

Dartmouth College

The Banks and Prosperity. By Lionel D. Edie. (New York: Harper. 1931. Pp. xi, 179. $2.50.)

Dr. Edie's latest book shows quite unostentatiously how simple a matter it really would be to eliminate the extreme fluctuations of business activity if only central bank officials would listen to his advice.

Some economists, he says, stressing the importance of industrial equilibrium, attribute the occurrence of business depression to maladjustment between production and consumption. Others, stressing the greater importance of monetary factors, explain depression as due to maladjustment between credit, production and price levels. Dr. Edie is careful to point out (p. 5) that there is no necessary antagonism between the two

points of view; but he does regard the monetary and credit factors as of fundamental importance (pp. 82-88). "So-called physical maladjustments do not for the most part originate independently of monetary movements but as a function of such movements" (p. 89). If therefore excessive oscillations of credit could be avoided, tendencies toward over-expansion of industry, whatever the cause, would be effectively curbed (p. 126). Industrial fluctuations might still remain, but only in a much attenuated form.

The author's program for the control of the business cycle is therefore a program primarily for the control of credit expansion and contraction. The burden of responsibility for such a program is to be assumed by the central banks. Quite specifically, the central banks should adopt the policy of ". . . *so regulating the reserves of the banking system that the outstanding credit built upon those reserves will expand at the same rate as the long-term growth of production*" (p. 117; *cf.* p. 47). The long-period rate of growth of production may be statistically determined; it is about 4 per cent per annum in the United States (p. 118). So, if credit shows a tendency to expand more rapidly than 4 per cent per annum, central bank officials should at once take action, in the form of "moral suasion, raising the rate, regulating the reserve" (p. 152), to prevent undue expansion. If undue expansions of credit are thus avoided, undue contractions of credit also will not occur (pp. 121-122).

As Dr. Edie says, such a program for control of the business cycle at least has the advantage of definiteness and concreteness. But he is himself quite aware of the existence of certain difficulties. The weapons to be used by the central banks for the control of credit are not, after all, completely reliable. Moral suasion has never been very effective in this country (p. 152). And "rate control of demand is difficult for the reason that the elasticity of credit demand behaves in an unstable and often unpredictable manner" (p. 102).

The objection also might be made that attempted control of the grand total of credit, without consideration for the particular uses to which the credit is put, is likely to be ineffectual and even harmful. Dr. Edie however, feels that if the aggregate amount of credit is controlled, ". . . the particular uses of credit will tend not to get radically out of balance" (p. 127).

I am inclined to think, on the contrary, that the control of particular uses of credit is more important and more fundamental than the control of the aggregate of credit. In most periods of prosperity, a few industries are particularly affected—for example, the railroads in 1869-73, 1879-82, 1886-90; the automobile, the radio, and the building construction industries in the period 1922-29. To raise rates of interest sufficiently high to check undue expansion in these industries (and rates would have to go

very high to do so) would be ruinous for other industries. Edie suggests (p. 128) that moral suasion and rationing might be applied to the offending industries (the stock market is his illustration). But moral suasion has shown itself to be woefully ineffective; and rationing, if effective, would give authority to the officials of the central bank to say which industries should, and which should not, be permitted to expand—national planning of industry, no less, with authority vested in the officials of the central bank!

The objection also should be raised that Dr. Edie's criterion for credit control is not so definite and concrete as he seems to think it is. The determination of the normal rate of increase of production is not a purely objective procedure. Some one type of index number must be selected. Weights must be determined. Data must be selected. After the index of production has been constructed, the secular trend must be computed. Again a subjective element enters: what type of trend is most appropriate? Dr. Edie says, the exponential curve—production increases at a constant annual rate over a long period. But in a country like the United States in which the rate of population growth is probably changing, it might be reasonable to expect the annual rate of increase of production also to change somewhat from year to year. Then there is the difficulty involved in the fact that trends may change at any time in a quite unpredictable way. And the experience of the last few years leads to the conclusion that in a period of even moderate expansion it would be difficult for central bank officials to convince themselves that the rate of growth of production had not permanently risen to a new level.

Possibly it is the printer's fault that the date 1876 appears twice on page 158 instead of the date 1873 to which the author clearly had reference.

B. F. Haley

Stanford University

Rural Banking Reform. By Charles W. Collins. (New York: Macmillan. 1931. Pp. vii, 187. $2.00.)

Characterizing our system of rural banking as "an anachronism in this modern commercial age," the author stresses the need for a vigorous national policy in banking. Congress has lapsed into a policy of defensive legislation designed primarily to enable national banks to compete successfully with state banks. The federal reserve system which was expected to strengthen national leadership in banking has really weakened it through various concessions to increase state bank membership. The strongly entrenched position of state banking interests in the national and state legislatures and in banking publications is an additional handicap to federal leadership. The author points the way out of the chaos of

a declining national banking system in competition with forty-eight state systems. Our banking history affords ample precedent for the authority of Congress to take the lead. Also, in exercising its well-established right to regulate interstate commerce, Congress may find that it must take the lead in defining banking policies, which are so intimately connected with commercial policies. Finally as a last resort, Congress could take full leadership by forcing all state banks into the federal reserve system as a necessary step in the prosecution of the purposes for which the system was established.

Strong national leadership would make possible an effective system of branch banking, which the author considers the real remedy for the rural banking situation. The much-heralded position of the small unit bank as the mainstay of the pioneer is largely mythical, since the small unit banking system as we now have it is largely a product of the period 1900 to 1920. Unfortunately, the enormous increase in the number of small country banks from 1900 to 1920 was simultaneous with a rapid development of the means of transportation which in turn drained business from the excessive banking units. When transportation was slow, many communities had no banking facilities; and now that farmers can get to the larger towns the villages are surfeited with banks.

Unit rural banks have inherent weaknesses: they offer few services as compared with city banks, and they lack diversification in their loans which results in uncertain earnings and frequent failure. Branch banking systems would supply the services of a city bank, and they would achieve diversification and safety by covering more territory. For the present, each branch banking system should be restricted to a well defined economic region. Nation-wide systems may develop later. At any rate, the author does not expect a sudden change from unit to branch banking, and it is probable that strong independent units will remain as permanent competitors of branch systems.

The book is timely. Its importance lies chiefly in the survey of the development of state and national banking policies and in the clarification of the constitutional authority of Congress to establish and maintain a strong national policy in banking. The discussion of the weaknesses of unit banking and of the advantages of branch banking is not convincing. The reader simply learns that independent unit banks have insufficient diversification of loans and that branch systems could achieve diversification by covering more territory. Little light is thrown on the specific causes of country banking difficulties since 1920. Presumably the depressed economic condition of agriculture during this period furnished the first real test for an inherently weak country banking system. With all the charm of the term "diversification," one wonders just how much territory a branch banking system would have had to cover in 1930 and

1931 in order to be able to counterbalance bad agricultural areas with those notably more fortunate.

Considering the author's close association with the office of the Comptroller of the Currency and his access to statistical information being compiled by Congressional Committees, it is disappointing that no factual material is presented on the causes of rural bank failures. No clear line is drawn between what is considered the inherent weaknesses of the unit banking system and other causes connected with poor economic conditions in agricultural communities. Until this distinction can be made clear and a stronger case is made against the "inherent weaknesses" of the system, public opinion, backed by aggressive banking interests, is likely to block the current proposals for branch banking.

Virgil P. Lee

Agricultural and Mechanical College of Texas

Monetary Problems of the British Empire. By S. E. Harris. (New York: Macmillan. 1931. Pp. xvi, 569. $5.00.)

In this volume Dr. Harris has analyzed the mechanisms of inflation and deflation during the period 1914-1924 and has tested current and often contradictory views relative to the monetary policies of these years in terms of governmental and banking statistics. By utilizing certain clues and working hypotheses he has succeeded in disentangling the scanty and confusing returns of the British government and banks and in correlating the activities of these two arms of finance.

The first three parts of the book are devoted to Great Britain and deal in order with "Special phases of inflation," "Inflation and deflation," and "Exchanges and gold policy." Part 4 is concerned with monetary problems of India before and since 1914, and Part 5 more briefly with the post-war problems of South Africa, Australia and Egypt. Frequent summaries add to the effectiveness of the presentation and assist in giving a greater measure of cohesiveness to the volume. An extensive bibliography (comprising about 60 pages) with comments on most of the books and articles is added.

In the early days of the war there were substantial rediscounts of commercial bills at the Bank of England under government guarantee. The Treasury, moreover, began to obtain advances (Ways and Means) at the Bank and this further augmented the resources of the market. The chapters dealing with "Ways and Means" and "Special Deposits" are of particular interest. Dr. Harris shows that Ways and Means advances of the "orthodox" type released purchasing power into the market and were inflationary, whereas Special Deposits (the Bank of England acting on behalf of the government received interest-bearing deposits from the

market) were deflationary until the proceeds were spent by the government. He concludes that "a residuum of inflation remained" as a net result of these operations.

In view of the general indictment by Professor Cassel and others of low central bank rates in connection with inflation, it is of interest to note Dr. Harris' acquittal of Bank rate in England. He concludes that Bank rate was less significant in either causing or facilitating inflation than were other rates and policies. He has less to say of its rôle after the war but emphasizes the responsibility of the Treasury for initiating and promoting the deflation of these years. The limitation upon fiduciary note issue was not the primary cause of deflation, but it accentuated the strain.

Considerable attention is given to the price history of the war and post-war period. During the war, "prices were fictitious in the sense that unlimited supplies could not be purchased at market (controlled) prices." An interesting section deals with deficient supplies and contends that more emphasis should have been given to this factor as a cause of high prices. Deposits rose moderately, though there was probably some transference from inactive to active accounts. The expansion of Currency Notes (and the later contraction) was largely resultant. In connection with the deflation years, it is observed that "the reduction of money and deposits in 1921 and later years was of minor proportions in comparison to the decline of prices" (p. 200). The reader may feel as the reviewer does that Dr. Harris by stressing supplies, by minimizing money and credit, and by avoiding the term "velocity" (utilizing instead at one point Mr. Keynes's "k" and at others the idea of active *vs.* inactive deposits) is striving to get away from the Fisher equation. His analysis would have been just as true and possibly more understandable if he had utilized the framework of the conventional American approach, and particularly if he had not eschewed the "velocity" concept.

The section on "Exchanges and gold policy" contains chapters on pegging, inter-allied debts, the parity theory, and gold transactions. Prior to 1922 the balance of payments dominated the exchanges, but from 1922 to 1924 the price and fiscal history of Great Britain "was an important factor in the improved position of sterling, and the price history of the United States goes a long way toward explaining the fluctuations of sterling" (p. 347).

These points selected for comment scarcely do justice to Dr. Harris' careful examination of this historic ten-year period. And unfortunately it is not feasible within the limits of this review to deal with the interesting and useful sections devoted to the Dominions and India. It is to be regretted that the broad scope of the book prevented Dr. Harris from carrying his study of Great Britain at least into the year 1925, which

marked the culmination of the first cycle of post-war policy and the initiation of a new period—recently completed. As it is, he does not deal with this last period, and hence does not pay his respects either to Mr. Keynes's strictures on the gold standard or to his "economic consequences" of credit policy, but turns rather in the last section to the interrelated but distinct problems of India and the Dominions. Possibly a sub-title should have been utilized to indicate that the book is concerned with the years between 1914 and 1924.

LEONARD L. WATKINS

University of Michigan

NEW BOOKS

AFTALION, A. *L'or et sa distribution mondiale.* (Paris: Librairie Dalloz. 1932. Pp. viii, 235. 25 fr.)

ARENDTZ, H. F. *The way out of depression.* (Boston: Houghton Mifflin. 1931. Pp. xii, 105. $1.)

The author of this book names two primary causes of the present period of business depression—over-speculation and the general decline in the level of commodity prices. The latter cause is by far the more important to Dr. Arendtz, and demands the major part of his attention.

If the general decline in the level of commodity prices has been the most important factor responsible for the present depression, the next problem is to discover what has caused this decline of commodity prices. Not general over-production of commodities, except in the sense that more goods and services have been produced than could be sold at a profit. Rather, the cause of declining prices is to be found in under-production of money. The world stock of gold has not been increasing as rapidly, since 1923, as the production of other goods and services. Nor, except in the United States, has the supply of credit money increased. Consequently, the general level of prices has declined, and business has been plunged into depression.

The way out of the depression is revealed by this analysis of the most important cause of the depression. If too little money is the cause, more money is the remedy. The author therefore commends, as the way out, the international adoption of bimetallism. The result would be more money in circulation, increased demand for goods, higher prices, prosperity.

This book is probably only one of a large number of books having a similar nostrum to prescribe which will shortly appear.

B. F. HALEY

BAKER, A. *Money prices: a short explanation of the monetary system, and some proposals to restore and maintain prosperity by the regulation of prices and the right use of credit.* (London: J. M. Dent. Pp. 216. 6s.)

BALDWIN, W. E., editor. *New York banking law, annotated: containing all amendments to January, 1932, with annotations from decisions of the courts and rulings of the Attorney General.* (New York: Banks Law Pub. Co. 1931. Pp. 395. $7.50.)

BARRETT, D. C. *The greenbacks and resumption of specie payments, 1862-1879.* Harvard economic studies, vol. xxxvi. (Cambridge: Harvard Univ. Press. 1931. Pp. 259.)

This is a competent and well written history and criticism of the Ameri-

can greenback period and of Civil War finance generally. A wider historical ground is covered than in the notable studies of W. C. Mitchell; but in the middle portion the book is much indebted to the materials of Mitchell, a fact which is frankly and adequately acknowledged. The author's economic critcisms and interpretations are well grounded in orthodox (and sound) theory, and the principal theses possess point and interest.

It is argued that the issue of legal tenders, and the suspension of specie payments upon them, could have been wholly avoided, and impressive evidence is presented. It is further argued that, assuming nevertheless the issue of the legal tenders and the suspension, the resumption of specie payments could have been accomplished in 1865-66, a matter of twelve or thirteen years earlier than the actual event. The considerations favorable to this supposition are handled at length in chapters 5 and 6. The period of indecision and political agitation from 1865 to the final date of resumption is covered in a satisfactory and interesting manner. Naturally the names of Chase, McCulloch, Edmunds, and Sherman figure largely in the pages of the work. The author has brought to light certain matters very creditable to Senator Edmunds.

A. C. Whitaker

Belshaw, H. and Enfield, R. R. *The provision of credit with special reference to agriculture.* (Cambridge, England: Heffer. 1931. Pp. xvii, 326. 10s. 6d.)

Block, A. *Bausparen in England, Amerika und Deutschland.* (Berlin: Bauwelt-Verlag. 1931. Pp. 493. M.21.)

Bodfish, H. M., editor. *History of building and loan in the United States.* (Chicago: U. S. Building and Loan League. 1931. Pp. xiii, 792.)

This volume, which is the first in English designed primarily to survey the historical development of building and loan associations in the United States, will be found more useful to research workers as an indication of source material than for any other purpose.

The volume is divided into three parts. The first part gives a rapid summary of "One hundred years of building and loan in the United States" touching upon the high points in the century of building and loan progress. Chapter 3, which presents some of the minutes of the first building and loan association organized in Frankford, Pennsylvania, in 1831, is especially interesting. This part also presents in Chapter 14 brief comments on important legal decisions affecting building and loan associations in this country. Chapters 1, 2, 17, and 18 covering "The development of co-operative financing in the United States," "America in 1831," "Commercial and financial future of America," and "The future of building and loan in the United States," while probably valuable for the casual reader, are too cursory to be of any particular value to the research student.

Part 2 presents a summary of building and loan development in the several states in the Union. This part is principally biographical in nature, but probably affords suggestions of source material which may have permanent value.

Parts 3, 4, and 5 contain a valuable statistical appendix, a bibliography of building and loan associations prepared (page 252) by the Library of Congress, a directory of the "active and progressive associations through whose support the United States Building and Loan League has been able

to collect these materials and publish this book," and a four-page index which is useful but omits some important items. The bibliography is probably the best that has ever been published. It is to be regretted that the directory is not complete or that the omissions are not more clearly indicated in the title to this part.

ERNEST M. FISHER

BRADY, J. E., editor. *Federal banking laws: 1931 edition, as amended to March 4, 1931.* (New York: Brady Pub. Corp. 1931. Pp. 353. $3.50.)

CANNAN, E. *Modern currency and the regulation of its value.* (London: P. S. King. 1931. Pp. viii, 112. 5s.)

The surprising feature of this small volume is that it contains so much meat in comparatively few pages. This is particularly noteworthy in that about one-half of the book (Chapters 1 and 2) is devoted to a treatment of elementary monetary principles, familiar to students of money, but included by Professor Cannan to avoid the confusion of younger readers by assuming a knowledge of conditions which have not existed for well over a decade. It is in the latter part of the volume (Chapters 3 and 4), devoted to the value of money and obstacles to reform, that students of the subject will be most interested.

The main thesis of the book is that the failure to increase the currencies of the gold standard countries sufficiently to meet the needs of an increasing population—which is deemed to be a cause of depression—"can easily be overcome by the general will without any abandonment of the gold standard and without complete unanimity or definite agreements on the part of the countries concerned" (p. 110). The quite easy method of overcoming the difficulty in question lies in the abandonment of existing minimum reserve requirements. Such requirements, as Professor Cannan clearly demonstrates, focus the public attention on the prescribed legal reserve rather than on the ability of central banks to redeem their obligations in gold, thus forcing these banks to maintain redemption reserves over and above the legal minimum.

While quite in agreement with Professor Cannan as regards the undesirability of too high and too rigid reserve requirements, the reviewer is unable to subscribe to certain other of his conclusions. Most important among the latter is the contention that bank money, check currency, or deposit currency, as it is variously termed, is not a form of money or currency at all. The use of the word currency in reference to checking deposits may properly be objected to on etymological grounds; but Professor Cannan also contends that such deposits do not serve to augment the supply of exchange media and hence have no influence on the value of the money unit. He raises the usual question as to why other forms of credit than deposits should not also be called money and finally inquires, a trifle maliciously perhaps since he does not believe there is an answer, why some writers have gone so far as even to exclude time deposits which are, in fact, payable on demand in the usual case.

Actually there is a perfectly good reason for including checking deposits only under the head of bank money or deposit currency. Since the great bulk of the checks drawn by depositors cancel in the clearing process or are transferred to other accounts in the same bank, the deposit credits which the checks represent pass from person to person in exchange for

goods and services *without being turned into hand-to-hand money,* thus serving as a medium of exchange, while time deposits are not so transferable (except in rare cases where checking against them is permitted) without first being turned into hand-to-hand money or into a checking deposit.

This is a vital distinction, and Professor Cannan's failure to grasp it has led him into a number of difficulties. It is probably responsible for his belief that in the United States after the crisis of 1920 "the monetary authority deliberately tried to avoid what is called a 'gold inflation' by decreasing the proportion of currency issued against reserve of gold" (p. 74). According to his theory, the effort should have been successful, for money in circulation remained on a nearly constant level from 1923 to 1929. Actually, however, the general price level (Snyder's index) rose from 155 early in 1922 to 183 in September, 1929, so that a substantial inflation occurred in spite of the failure of hand-to-hand money in circulation to increase in amount.

While the volume under review is much less satisfying than Professor Cannan's earlier work, *Money: Its Connexion with Rising and Falling Prices,* it is nevertheless decidedly stimulating, as might be expected, and is well worth the consideration of those interested in monetary theory and policy.

FREDERICK A. BRADFORD

CARTINHOUR, G. T. *Branch, group and chain banking.* (New York: Macmillan. 1931. Pp. xix, 351. $4.50.)

The literature upon this phase of banking has, in recent years, become truly voluminous; but there was still a place for the type of study which Professor Cartinhour has presented. For, he has devoted the greater portion of his treatise to group and chain banking, two types of banking concentration which have not previously received sufficient attention. One of the most valuable features of this volume is the vast array of factual material which it contains, material which was collected not only through painstaking research but by extensive travels in the field and by numerous interviews. Much of this information is not easily available elsewhere.

The result of the author's exploration is to convince him that branch banking, under proper regulation and management, offers much as a remedy for bank failures. He would not try to impose a uniform type of branch banking upon the country, but prefers to allow each section to develop systems which supply the needs of that section. He is convinced that the day of the small unit bank has passed, that the existence of so many small institutions was largely responsible for the banking debacle of the last decade. He has no fear of banking monopoly under large branch systems, since competition between large units would remain.

Professor Cartinhour realizes that the growth of large-scale banking has created serious problems, but he believes that they can be solved. He advances a number of proposals for better control. Chain banking, he admits, is in bad repute; but properly regulated group banking has much to recommend it, although probably branch banking is to be preferred. His discussion of the advantages and disadvantages of group banking (Chapters 14, 15 and 16) is well done. He ventures the belief that Congress can, if it wishes, eliminate all banks not under national control (p. 182), and also control the state holding companies (p. 189).

It may be doubted whether the author has decisively proved his case regarding the greater profitableness of large-scale banking. The figures which he tabulates in Chapter 3 seem to show that the most profitable bank is one with resources of from $1,000,000 to $5,000,000. A more minute division of the larger groups in the tables might, however, strengthen his case. It should be remembered that Lawrence's *Banking Concentration in the United States,* which appeared a short time prior to the work under review, takes a position which is directly opposed to that of Professor Cartinhour on the advantages of branch banking. Both of these authors make out rather convincing cases, reaching different conclusions. As a result, we must conclude that it is by no means certain that state-wide or nation-wide branch systems constitute the main road to banking safety. We must postpone our decision until we observe whether certain large branch systems which are known to be in serious difficulties weather the storm.

Charles S. Tippetts

Chablani, H. L. *Studies in Indian currency and exchange.* (London: Oxford Univ. Press. Pp. 263. 9s.)

Clare, G. *A money market primer and key to the exchanges.* 3rd ed., rev. by M. H. Megrah. (London: Effingham Wilson. Pp. 287.)

Clare, G. and Crump, N. *The A. B. C. of the foreign exchange.* (New York: Macmillan. 1931. Pp. 306. $1.80.)

Cross, I. B. *Money and banking.* (New York: American Institute of Banking. 1931. Pp. 544.)

Cuneo, J. A. *Banking and currency in Argentina.* (Lincoln, Neb.: Che Pub. Co. 1932. Pp. 28.)

Feavearyear, A. E. *The pound sterling: a history of English money.* (Oxford: Clarendon Press. Pp. 367. 15s.)

Fetter, F. W. *Monetary inflation in Chile.* (Princeton; Princeton Univ. Press. 1931. Pp. xiii, 213. $2.50.)

Foulke, R. A. *The commercial paper market.* (New York: Bankers Pub. Co. 1931. Pp. xv, 267.)

Gardner, W. W. *Building and loan liquidity, with especial reference to the situation in New Jersey.* (New Brunswick: Rutgers Univ. Bureau of Econ. and Business Research. 1931. Pp. 136. $1.)

This excellent analysis of the problem of liquidity of building and loan association funds was apparently made for the principal purpose of assisting the New Jersey Building and Loan League in the determination of its policy with reference to legislation and proposed legislation designed to improve the position of associations in the state regarding the demands of depositors and creditors for the payment of funds which are in the hands of the associations. This approach to a current problem by a business group is to be heartily commended. The intricate problems which face a trade organization in determining its policies offer abundant opportunities for such a use of bureaus of economic and business research. It is to be hoped that the practice adopted by the New Jersey League will increase.

The study presents a succinct statement of the varying points of view found within the ranks of building and loan managers about the whole question of liquidity. There is also a good description and critical analysis of the plans which have been used to secure the liquidity of building and loan funds in different states.

The whole question is approached from the point of view of the management of the building and loan association. The question might be raised as to whether the interests of society might not dictate a wider approach to the problem. Is it a valid assumption that the men directing the activities of building and loan associations are the only group who can properly define the term liquidity as it applies to building and loan funds?

One other fundamental assumption may be questioned. The author apparently believes that the maximum amount of funds necessary to guarantee that degree of liquidity which would enable all associations in the state to meet immediately all demands for cash can be measured roughly by the excess of liabilities (*i.e.* "borrowed money overdue, withdrawals, loans granted borrowers, and maturities," p. 61) over current cash available. Perhaps this assumption is as valid as any other.

In final analysis it may be questioned whether the nature of building and loan associations is not such as to necessitate the frank recognition of the fact that its assets are not liquid. In banking practice it is generally recognized that liquidity of funds can be provided only by investments which are self-liquidating. Building and loan associations are organized for the very purpose of investing in non-liquid securities. It may be that notwithstanding this fundamental difficulty a plan can be devised by which a sufficient fund can be made available to meet the demands for cash which arise in time of financial stringency. If such a plan can be made to work, the discussion of the fundamental nature of building and loan credit becomes academic.

Ernest M. Fisher

Hawtrey, R. G. *The gold standard in theory and practice.* 2nd ed. (New York: Longmans Green. 1931. Pp. 168. $1.50.)

Hayek, F. A. *Preise und Produktion.* (Vienna: Julius Springer. 1931. Pp. xv, 124. RM. 7.20.)

Keener, J. W. *Cutting the cost of bank loans.* Stud. in bus. admin., vol. ii, no. 2. (Chicago: Univ. of Chicago Press. 1931. Pp. x, 56. $1.)

A study of short-term interest rates designed to be of assistance to "executives in determining where they may borrow at the lowest cost and at what times." Analyzes commercial loan rates and warehouse receipt collateral loan rates, as to secular trends, seasonal variations and cyclical movements.

Kunwald, G. *Ehrliches und unehrliches Silbergeld.* Kieler Vorträge, no. 35. (Jena: Fischer. 1931. Pp. 58.)

Dr. Kunwald states that for 45 years he has felt that the circulation of coins containing silver to only a fraction, latterly in some cases as small as one-eighth, of their face value is fundamentally dishonest. He fears that the people of India will lose all confidence in the white metal, that China will not be able to absorb the surplus, and that finally its price may fall to as low as a cent an ounce.

His remedy is not bimetallism, which he explicitly disclaims, but a plea to coin silver more nearly at its market value, although he sets an arbitrary price of about 50 cents an ounce instead of the actual low of about 25 cents reached in February, 1931. He would have the United States, for example, recoin its $850,000,000 of silver coins into $350,000,000 of new ones about

two and a half times as heavy as the present coins, and issue $500,000,000 of United States notes to make up the difference, thus openly admitting that there was a considerable credit element in the currency. Other countries would act similarly and all would agree to purchase and coin a certain amount of silver annually so long as the price stayed below the new mint value.

To the reviewer, Dr. Kunwald's fears seem unjustified. Although the Indian *government* has bought practically no silver for coinage during the last ten years, the Indian *people* have absorbed about two-fifths of the world's production during that period. China has taken about the same amount. Both these countries are affected by the world depression, but they have not stopped importing silver, and when world demand for their exports revives they should continue to take a considerable part of their balance of payments in the form of bar silver, destined in India for ornaments and in China for silver money. Although the potential sales by the Indian government are a bearish factor at present, even these supplies are not inexhaustible and would not seem to justify a prediction of a cent an ounce.

If the sickness is not so severe as feared, the remedy would seem unnecessary. It is a question whether the recognition of the credit element in silver currency by the issue of uncovered government notes would really increase confidence in any country's money. Moreover, if silver should rise above the lowered mint value, it would so much the sooner bring back the danger of the melting pot which appeared with the wartime rise in the silver price and led to the "debasement" of silver coinage which Dr. Kunwald deprecates.

Dickson H. Leavens

McNamara, J. J. *Money: its functions and power.* (Baltimore: Author, 222 St. Paul St. 1931. Pp. 80. 25c.)

Nagy, T. *Die ungarische Nationalbank.* (Munich: Duncker & Humblot. Pp. 174. M. 10.)

Napier, E. S. *The German credit problem: a plea for simple and effective control.* (London: London General Press. Pp. 43. 2s. 6d.)

Pickett, R. R. *Federal reserve bank policy in Iowa.* Stud. in bus. admin., vol. ii, no. 3. (Chicago: Univ. of Chicago Press. 1931. Pp. ix, 100. $1.)

Reichenau, C. von. *Die Kapitalfunktion des Kredits: ein methodischer Versuch.* (Jena: Fischer. 1931. Rmk. 9.)

Sanders, H. W. *Bank organization and operation.* (New York: American Institute of Banking. 1931. Pp. 384.)

Schmitt, A. *Konjunkturpolitik am Kreditmarkt in Theorie und Praxis.* (Jena: Fischer. 1931. Rmk. 12.)

Schwarzenberger, G. *Die Krieger-Anleihen. Ein Beitrag zur Auslegung der internationalen Anleihe und Monopolverträge sowie zur Lehre vom Staatsbankerott.* (Munich: Duncker & Humblot. Pp. 69. M. 3.60.)

Stamp, J. *Papers on gold and the price level.* (London: P. S. King. 1931. Pp. x, 126. 7s. 6d.)

Thomas, S. E. *British banks and the finance of industry.* (London: P. S. King. 1931. Pp. vii, 290. 12s. 6d.)

Ulrich, E. *Les principes de la reorganisation des banques centrales en Europe après la guerre.* (Paris: Recueil Sirey. 1931. Pp. iv, 398.)

VIGREUX, P. B. *Le credit par acceptation Paris centre financier.* (Paris: Lib. des Sciences Pol. et Soc. 1932. Pp. xvi, 348. 50 fr.)

WELLS, D. A. *Robinson Crusoe's money, or, The remarkable financial fortunes and misfortunes of a remote island community.* Reprint of 1876 ed. (New York: Peter Smith. 1931. Pp. 118. $2.50.)

Bank management. (New York: American Institute of Banking. 1931. Pp. 544.)

Building and loan annals, 1931. (Chicago: U. S. Building and Loan League. 1931. Pp. xvi, 1484. $7.50.)

Collection of more than 100 articles, by specialists, grouped under the general topics of building and loan practice, accounting, advertising and business development, appraising, attorneys' division, executive officers, International Congress, and American Savings, Building and Loan Institute. There is also a compilation of new laws.

The cost of living in the United States, 1914-1930. (New York: National Industrial Conference Board. 1931. Pp. x, 170. $3.)

This volume is the latest of the widely-used studies of the cost of living published by the National Industrial Conference Board. It marks an advance and a departure in the substitution of 1923 as the base year for July, 1914, hitherto employed. The choice of 1923, "the first post-war year of relatively settled economic conditions" was found preferable to 1926, the base year used by the United States Bureau of Labor Statistics for its index of wholesale prices and also to the base average of 1923-1925 of the Federal Reserve Board, because it is more readily understood by the public and is equally suitable as a base.

A second important change in the new index is an expenditure distribution believed to be appropriate for 1923. This was built upon the Bureau of Labor's studies of the Ford employees in Detroit and federal employees in five cities and from data for a smaller number of industrial workers in Minnesota and typographers in San Francisco. According to the new distribution, food is a less important item than it used to be for the small-income group. Instead of absorbing 43.1 per cent of the budget as in the pre-war distribution, it accounts for only 33 per cent, and sundries take 30 per cent instead of only 20 per cent. On this new basis the Conference Board has revised all indices hitherto presented. It continues to use the food index compiled by the United States Bureau of Labor Statistics and to investigate prices for other items through its own "coöperators." In spite of differences in method, a comparison of the respective curves shows that the three comparable American cost of living indices, those of the Conference Board, the Department of Labor and the Massachusetts Commission on the Necessaries of Life record the trend in substantially the same manner.

The authors emphasize the decrease in cost of living for wage earners. It was found to have reached the lowest point in twelve years in December, 1930, or 11.8 below the base year 1923. The percentage decline in the 14 months after October, 1929, however, was only 8.3 as compared with 17.6 after the peak of 1920.

The general explanation of the methods used in determining the cost of living found in the opening chapters of the present report are presented with great lucidity and furnish excellent material for the student who comes fresh to the subject for the first time.

AMY HEWES

Credit management. (New York: American Inst. of Banking. 1931. Pp. 548. $3.50.)

Director of the Mint: annual report for the fiscal year ended June 30, 1931, including report on the production of the precious metals during the calendar year 1930. (Washington: Supt. Docs. 1931. Pp. 255. 75c.)

The international gold problem: collected papers. (New York: Oxford Univ. Press. 1931. Pp. 240. $4.50.)

Member bank reserves: report of the Committee on Bank Reserves of the Federal Reserve System. (Washington: Supt. Docs. 1931. Pp. 26.)

Public Finance, Taxation, and Tariff

Federal Financing: a Study of the Methods Employed by the Treasury in Its Borrowing Operations. By Robert A. Love. (New York: Columbia Univ. Press. 1931. Pp. 261. $4.25.)

With federal borrowings again front page news, a study of the Treasury's financing methods is very timely. The greater part of Mr. Love's book is devoted to an historical analysis of federal loans since the war of the Revolution, their security features, the financial policies reflected and the effect of loans on subsequent borrowings. These chapters lead up to a critical summary of the distinctive characteristics of borrowing operations. Appendix tables include the details of loans authorized up to 1915.

In reviewing his findings, Mr. Love points out that the choice of borrowing methods has been limited by the policy of maintaining low interest rates. Various special devices are cited as a means of effecting loans under this policy, such as commissions during the early period after the war of the Revolution, Treasury notes with certain qualities of money during the War of 1812 and the 1837 period, legal tender notes during the Civil War and special organization of the financial and monetary structure of the country during the World War. A further means of creating a market for loans during the World War was the special appeal to patriotism. The effect of other special characteristics of government securities considered by Mr. Love include: tax exemption; receivability of securities for certain payments to the government, such as for all taxes except customs during the Civil War and for estate taxes in recent years; and convertibility of securities into subsequent debt issues by general and specific provisions for conversion, and by exchange into refunding debt issues. Measures for insuring payment of loans which are examined include the sinking fund and the retirement of debt through other specific appropriations and from specific receipts.

The historical review of Treasury loans covers an important phase of federal finances and is well presented. Important omissions for a study of this nature are the post-World War loans and the short-term financing

methods of recent years. The comments of the writer would frequently be more effective if presented against a broader background of general economic and financial conditions than is possible in a brief study.

Mr. Love has shouldered the difficult task of analyzing critically the Treasury's borrowing methods from the point of view of the financier who is responsible for the financial policy, the terms of the loans, and the creation of a market for loans. A study of this nature is a distinct contribution. The limitations of the conclusions presented arise in large part from a certain narrowness in definition of the financier's problem and from the failure to appraise the development in financing methods. A financier whether in government or in business must necessarily take account of the general conditions underlying the need for and the market for loans. A national emergency has been the usual occasion for major federal borrowing operations, during which the first objective is to raise funds as needed.

The question may well be raised whether the federal government can so finance a civil war or its share of a world war as to conform completely to certain pre-defined methods and to avoid the necessity for subsequent adjustments. A distinct addition to Mr. Love's study would be more consideration of the progress in borrowing methods from the early days when the government was struggling against a poor credit standing and an inadequate banking and currency system to vastly changed present-day conditions. Taking account of the stupendous volume of loans floated during the World War and the financing methods employed, the management of borrowing operations during this period unquestionably showed a marked improvement over earlier emergencies.

Susan S. Burr

Washington, D.C.

American Public Finance and Taxation. By William J. Shultz. (New York: Prentice-Hall. 1931. Pp. xxiii, 635. $5.00.)

There has been a shortage of good college textbooks on public finance. Texts in this field get out-of-date rapidly and too frequently they are not revised or replaced. Dr. Schultz's book is not only timely but it has many attractive features. It is divided into thirty-three chapters, convenient for assignments. The outline and important passages are set off in bold-faced type. The book is amply footnoted, and each chapter is supplemented with suggested readings. The treatment of the subject matter is the most complete yet presented in a work of its kind. The arrangement of topics is logical and well adapted to classroom use.

The author includes a number of topics hitherto largely neglected in public finance texts. Two chapters are devoted to the "Constitutional aspects of taxation." They show the boundary lines of tax discretion

possessed by legislative bodies, and include a citation and discussion of the principle cases. There is a chapter on the "Administrative aspects of taxation," much of which is new. Another chapter is devoted to taxes for highway construction and maintenance. On the other hand, certain topics usually dealt with at length are omitted or summarily treated. The "single tax," usually given the dignity of a chapter's treatment, is dismissed with only a paragraph or two. True to its title, the work scrupulously ignores description and criticism of tax systems not found in the United States.

The book is divided into six parts, not including the introduction: "Governmental expenditures," including a discussion of the governmental budget and the custody of governmental funds; "Governmental borrowing and indebtedness"; "Current governmental revenues," including an enumeration and discussion of sources of revenue other than taxation; "Theory of taxation," including legal aspects and the problems of shifting and incidence; "American taxes"; and "American fiscal systems," dealing with the interrelation of federal, state and local taxation.

The author was formerly the financial economist of the National Industrial Conference Board, where he directed a number of the extensive research studies of that body. He thus has first-hand acquaintance with the rich store of factual information unearthed by the Conference Board studies, and he draws on this information extensively.

The author does not hesitate to express a vigorous opinion on many matters. He agrees with most of the political scientists of our time that the way to economy and efficiency is in centralization of government. Divided responsibility accounts for much public waste and inefficiency. Long-range planning of public works is advocated as a way to mitigate depressions. "Vanishing exemptions" are indorsed as a method of increasing the yield of death and income taxes without materially increasing their burdensomeness. The author objects strenuously to the publicity of income tax returns. Business taxes are justified since "individuals in their business capacities receive benefits from governmental activities which are distinct from benefits which governments accord them in their personal lives and because in their two capacities they may be active in two taxation districts"; but special tax treatment of incorporated business enterprises is opposed as unsound. Nowhere does the author take a more positive position than in his criticism of *ad valorem* taxation of public service corporations. After the assessing body completes the laborious task of determining a precise figure for net income, it is obliged to capitalize this figure by an arbitrary rule-of-thumb ratio. The assessors arrive at several valuation figures and then seek by "various combinations to achieve some reasonable valuation figure." The whole process finally resolves itself into "a bargaining between the as-

sessing body and the legal representatives of the taxing enterprises." Gross or net earnings taxes are recommended as a simpler and more scientific way of taxing public service enterprises.

Throughout his book Dr. Schultz maintains a scrupulously objective attitude. Frequently he refuses to arbitrate between opposing views. In an earlier work on the *Taxation of Inheritance* the author took the position that there is no such thing as equitable or scientifically correct taxation. There is the struggle of conflicting interests and the stronger rationalizes its program into fine sounding ethical arguments. The author does not here insist on this position. He does say that there is no sure test of equity in taxation. We may perceive when tax policies are palpably unjust. Such policies are to be rejected; others may be retained not because they are positively just but because, not being clearly unjust, they are as acceptable as any we are likely to get.

The book is more descriptive than philosophical, and the description is heavily weighted with factual information. The author shows good sense and balance throughout his work and while his reactions are usually conservative, he has unquestionably a social point of view. Usually his style is clear, logical and effective.

Harold M. Groves

University of Wisconsin

NEW BOOKS

Betters, P. V. *Federal services to municipal governments.* Pub. no. 24. (New York: Municipal Admin. Service. 1931. Pp. iv, 100. 50c.)

Beveridge, W. *Tariffs: the case examined.* (New York: Longmans Green. 1931. Pp. xi, 300. $2.)

Bird, F. L. *The present financial status of 135 cities in the United States and Canada.* Stat. ser., pub. no. 5. (New York: Municipal Admin. Service. 1931. Pp. 19. 25c.)

Buck, A. E. *Budgeting for small cities.* Pub. no. 23. (New York: Municipal Admin. Service. 1931. Pp. ii, 21. 25c.)

Coles, K. A. *Income tax and the business man (including sur-tax): a concise guide to assessment and relief.* (London: Crosby Lockwood. Pp. 84. 2s. 6d.)

Colm, G. and Neisser, H., editors. *Kapitalbildung und Steuersystem. Im Auftrage des Vorstandes der Friedrich List-Gesellschaft.* (Berlin: Reimar Hobbing. Pp. 1100. RM. 24.)

Dalla Volta, R. *Scritti vari di economia e finanza.* (Firenze: Seeberi. L. 40.)

De Stefani, A. *Manuale di finanza.* (Bologna: Zanichelli. L. 30.)

Field, W. S. and Johnston, O. T. *Teachers' salaries in the Los Angeles city elementary and high school districts: report on a survey of salary schedules for the teaching, supervisory, and school administrative personnel, authorized and ordered by the Los Angeles city board of education.* (Los Angeles: Board of Education. 1931. Pp. xxx, 178.)

Gulick, L. *Modern government in a Colonial city: a survey of the city government and finances of Williamsburg, Virginia.* (New York: Cape and Smith. 1932. Pp. ix, 258.)

Part 2, "Special financial reports," contains reports on assessments, bonded debt, sinking funds, and the budget and accounting system.

HUTCHINSON, R. G. *State-administered, locally-shared taxes; development in the state and local tax systems of the United States.* (New York: Columbia Univ. Press. 1931. Pp. 157. $2.25.)

JENSEN, J. P. *Property taxation in the United States.* (Chicago: Univ. of Chicago Press. 1931. Pp. xvi, 532. $4.)

———. *Survey of Colorado state tax system.* (Denver: Denver Chamber of Commerce. 1930. Pp. 223. $1.)

Denver business men, dissatisfied with the tax situation in Colorado, requested this report, which is a clear presentation of some of the most important problems of taxation facing the people of Colorado. It constitutes a source of information concerning fiscal affairs of that state that is not only well presented (as far as it goes), but which is made extraordinarily useful by Professor Jensen's sensible interpretations. Practically half of the volume is devoted to the operation of the property tax and to suggestions for its improvement. Among other subjects given considerable attention are corporation taxation, possibilities of income taxation, and possible usefulness of sales taxes of various sorts in the state system. Several other subjects, largely outside the scope of taxation proper, are considered briefly. On the whole, the property tax discussion is the most valuable in both content and method. Though special assessments constitute an important problem for Colorado and particularly for Denver, no consideration is given to this subject for the reason that expensive, time-consuming field work could not be done. Gasoline and motor registration taxes are also omitted, but no justification for their elimination is offered. The report seems to comprehend subject matter which constitutes live tax *problems* for Colorado business men.

JAMES W. MARTIN

JOHNSEN, J. E., compiler. *Conscription of wealth in time of war.* Ref. shelf, vol. vii, no. 5. (New York: Wilson. 1931. Pp. 205. 90c.)

KENDRICK, M. S. *The collection of taxes by the state of New York and the division of these revenues with units of local government.* Bull. 511. (Ithaca: Cornell Univ. Agric. Exp. Station. 1930. Pp. 53.)

Professor Kendrick has canvassed the system whereby certain taxes are collected by the state government in New York and distributed to the local units. His analysis is both factual and critical. He does not hesitate to make specific recommendations for extension of the practice; for making grants to larger units rather than to towns and villages; for using grants as a means of securing adequate local records and for improvement in the bases for distribution.

JAMES W. MARTIN

MAGUIRE, J. M. and MAGILL, R. *Cases on the law of taxation.* (New York: Commerce Clearing House. 1931. Pp. xix, 950.)

PINGREE, D. *Some aspects of the forest tax problem in selected towns of Wisconsin.* Progress rep. of the Forest Taxation Inquiry, no. 15. (Washington: Supt. Docs. 1931.)

QUERY, W. G., editor. *Proceedings of the twenty-third annual conference on taxation, under the auspices of the National Tax Association, held at Kansas*

City, Missouri, October 20-24, 1930. (Columbia, S.C.: National Tax Assoc. 1931. Pp. xviii, 462.)

RAO, V. K. R. V. *Taxation of income in India.* (New York: Longmans Green. 1931. Pp. xvi, 327. $4.)

RIGHTOR, C. E. *Comparative tax rates of 290 cities, 1931.* Stat. ser., pub. no. 6. (New York: Municipal Admin. Service. 1931. Pp. 703-718.)

ROBERTS, H. C. and SITGREAVES, E. J. *A digest of the banking laws of the commonwealth of Pennsylvania.* (Harrisburg: Telegraph Press. 1930. Pp. lxxiii, 368.)

SILVERMAN, H. A. *Taxation: its incidence and effects.* (London: Macmillan. 1931. Pp. xix, 359. $3.)

This is for the most part an application to British taxes of generally accepted economic doctrine with reference to the incidence and effects of such taxes. The author assumes that the reader is acquainted with British taxes, and yet he gives an unexpected amount of detail and does not confine his discussion solely to incidence and effects. At the outset he strongly condemns the commonly held "financial" view that a tax is nothing more than a means of providing the state with revenues and gives support to the socio-political views upheld by the Germans and attacked by Professors Seligman, Lutz and others in this country. In other words, the attitude of the writer may be designated as rather "progressive" or "liberal," but hardly "radical," though a conservative or reactionary might employ the latter term.

After devoting several chapters to discussions of general principles of taxation, public expenditures, taxable capacity, (one of the best chapters) equity and economy in taxation, the author gets down to his main task of explaining "incidence and effects." As suggested above, the treatment is sane and sound for the most part. Popular fallacies are dealt with very effectively, but no new ideas or matters of controversy between economists are brought up for consideration. According to the preface, the book was written to assist " the student and the general reader"; the "aim is to discuss in impartial terms the incidence and effects of national and local taxation, and to make the argument intelligible to those who are unversed in economic science."

One may raise the question as to whether or not this little volume falls between two stools in trying to meet the needs of both the student and the general reader; or he may assume that Great Britain has an unusually large number of general readers who are sufficiently interested and informed to read such a work with profit. Most American and other texts on public finance are weak or inadequate in their discussion of incidence. This book would furnish valuable collateral reading for students of these texts, especially if they do not make use of more thoroughgoing treatises of which Professor Seligman's work is the outstanding example in this country.

Experience indicates, however, that very few American students and even fewer general readers obtain any thorough or very helpful understanding of the incidence of taxation, or of many other matters involving the application of intricate economic analysis, unless they have expert guidance and considerable acumen and persistence. General reading on such subjects may increase fallacious notions almost as fast as it clears them up. It is to be hoped, however, that the general level of interest and information in matters of taxation, and also the general level of analytical ability in

economics will rise gradually to a point where works like the one under consideration can multiply their services manyfold.

Roy G. Blakey

Spaulding, G. A. *Federal income taxation.* (Buffalo: R. W. Bryant. 1931. Pp. 180.)

Stauffer, W. H. *Taxation in Virginia.* (New York: Century. 1931. Pp. xxv, 309. $4.)

Sultan, H. *Art und Mass der Prognose der Steuerwirkungen.* Recht und Staat 86. (Tübingen: Mohr. 1931. Pp. 27. M. 1.50.)

Taussig, F. W. *Some aspects of the tariff question: an examination of the development of American industries under protection.* 3rd enl. ed. (Cambridge: Harvard Univ. Press. 1931. Pp. xiii, 499. $4.)

Willoughby, W. F. *Financial condition and operations of the national government, 1921-30.* (Washington: Brookings Institution. 1931. Pp. xii, 234. $3.)

American federal tax reports: a convenient collection of unabridged court decisions from every American court—state and federal—that has had before it problems arising under the federal tax laws. Decisions have been included from the date of the earliest acts up to July, 1931. Vol. ix. (New York: Prentice-Hall. 1931. Pp. v, 1755.)

Commonwealth of Massachusetts: twenty-fourth annual report on the statistics of municipal finances for city and town fiscal years ending between November 30, 1929, and March 31, 1930. Pub. doc. no. 79. (Boston: State House. 1931. Pp. xxvii, 299.)

Current tax problems in New York state. (New York: National Industrial Conference Board. 1931. Pp. x, 146. $2.50.)

Finanzen und Steuern im In- und Ausland. Herausgegeben vom Statistischen Reichsamt. (Berlin: Reimar Hobbing. Pp. 900. RM. 10.)

The fiscal problem in Massachusetts. (New York: National Industrial Conference Board. 1931. Pp. xv, 344. $3.)

An exhaustive factual study undertaken at the request of the Massachusetts Tax Association. The findings relate to the expenditures of the state and local governments, tax revenues, indebtedness, tax burdens, possible adjustments in the revenue system, public school finance, and the control of local finance. No specific changes or proposals are advocated, but the facts assembled will be of service to those interested in improving the revenue system.

Highway services and costs. Rep. no. 5. (Trenton: Commission to Investigate County and Municipal Taxation and Expenditures. 1931. Pp. viii, 89.)

This volume is one of the ablest state studies of highway finance which has been issued. Its recommendations fall essentially into three parts: (a) highway administration; (b) appropriation and expenditure of highway moneys; and (c) analysis of and recommendations respecting highway revenues. The commission urges that administration of highway construction and maintenance should be so organized that all work will be done under able engineering supervision. It suggests that a comprehensive survey of traffic be made as a means of controlling expenditures on highways carrying various kinds and quantities of traffic. In general the recommendations and suggestions concerning highway taxes conform to the proposal submitted by the committee on motor taxation to the 1930 conference held under the

auspices of the National Tax Association. This is particularly true of (a) the increased amount of tax revenue to be raised by registration and gasoline taxes, (b) steep graduation on the basis of the gross weight of vehicle and capacity load combined (all vehicles propelled by gasoline being treated alike), (c) provision for five times as high a schedule of rates on vehicles fitted with solid tires as those fitted with pneumatics, and (d) the principle that motor vehicles should be taxed as personal property for general purposes if other tangible personalty is subject to property tax.

JAMES W. MARTIN

Local fire protection services and costs. Rep. no. 4. (Trenton: Commission to Investigate County and Municipal Taxation and Expenditures. 1931. Pp. vii, 97.)

The new intangible tax law (Senate bill no. 323) providing for the levy of taxes on intangible property at classified rates and for the assessment of tangible personal property, and the new motor vehicle license law (Senate bill no. 328), including an outline of intervening general code sections and a concise subject index. (Cincinnati: W. H. Anderson. 1931. Pp. 66.)

Report of the State Commission of Inquiry into Taxation, 1930. (Lansing, Mich.: State Commission of Inquiry into Taxation. 1931. Pp. 112.)

This report is obviously the work of a non-technical group. More attention is devoted to poll taxes, which are not used in Michigan at all, and on which the committee makes no recommendation, than to corporate taxes, including insurance taxes. The only part of the entire report which shows any particular discrimination is the analysis of tendencies of the property tax since 1913.

JAMES W. MARTIN

United States tariff with customs administrative provisions, approved June 17, 1930: anti-dumping act of 1921; Cuban commercial treaty; internal revenue tax schedule; list of parcel post countries. (New York: N.Y. Customs Brokers Assoc. 1930. Pp. xxxv, 723.)

Population and Migration

NEW BOOKS

BECK, P. G. and LIVELY, C. E. *Movement of open country population in Ohio.* Bull. 489. (Wooster: Ohio Agric. Exp. Station. 1931. Pp. 46.)

A study based upon 1,589 children in 1,275 families living in 8 selected open country areas of Ohio. These children began life for themselves independent of the parental family. Forty-one per cent of the male migrants became farmers, 7 per cent as owners, 16 per cent as renters, and 18 per cent as farm laborers. Of the 59 per cent who entered non-agricultural occupations, 45 per cent became laborers and 14 per cent entered the "white collar" occupations.

BLEGEN, T. C. *Norwegian migration to America, 1825-1860.* (Northfield, Minn.: Norwegian-American Hist. Assoc. 1931. Pp. xi, 413. $3.50.)

This is a history of the early decades of group migration from Norway to the United States. Beginning with the small "sloop" party which arrived in 1825, the narrative describes the process of migration and settlement

and ends with a survey of what had been accomplished by the end of the fifties. The conditions and influences which made those people leave the mother country are emphasized, and much insight is given into the nature of the Norwegian immigrants.

Among the factors which brought about the migration Professor Blegen weighs the economic heavily. It was a time of growth and transition in Norway, but changes in the economic life did not keep step with other changes. The increasing population still had to depend largely on the poor soil of Norway for subsistence. Relatively few were sailors and fishermen, and industry was undeveloped. The scarcity of land, unsatisfactory inheritance and land laws, restraints on freedom in seeking employment, and few opportunities to get work, made it difficult for the landless and even for many land owners. At the same time taxes were increasing. Besides these economic difficulties, there was a growing dissatisfaction with the intolerance of the state church and the unresponsiveness of the government to the needs of the people. Compulsory military service was also a factor of some importance. It is not strange that America with its great stretches of rich, cheap land and its much-advertised freedom came to appear like a magnificent utopia to the laborer, the cotter, the small peasant proprietor, and others seeking better opportunities.

Need and discontent must become acquainted with opportunity before emigration occurs. Professor Blegen deals effectively with the dissemination of information about America and the spread of the "America fever." The influence of leaders is stressed—men who wrote back home or returned to tell of their experiences and often to organize emigrant parties and help them to their new home. The printed or written word as contained in "America books" and "America letters" was a great propagandist for America. Apparently very little was done by transportation companies to encourage emigration. The movement met strong opposition, especially from certain churchmen and officials of the government, but perhaps the strongest factor in deterring immigration at times was news of hard times in America. This study is an excellent synthesis of the various aspects of a migration movement. It is comprehensive and scholarly in treatment and very readable. It is based on a wide diversity of material, both Norwegian and American, carefully used.

Henrietta M. Larson

Cotton, W. A. *Racial segregation in South Africa.* (New York: Macmillan. 1931. Pp. 164. $1.)

Crocker, W. R. *The Japanese population problem—the coming crisis.* (London: Allen and Unwin. 1931. Pp. 240. 10s. 6d.)

Ferenczi, I. *Le migrazioni e le previsioni demografiche e sociali.* Estratto dalla pubblicazione *Le Assicurazioni Sociali,* anno vii, n. 2. (Rome: Cassa Naz. per le Assicurazioni Sociali. 1931. Pp. 44.)

Gamio, M., compiler. *The Mexican immigrant: his life-story.* (Chicago: Univ. of Chicago Press. 1931. Pp. 301. $3.)

Gini, C. *Le basi scientifiche della politica della populazione.* (Catania: Studio Moderno. L. 30.)

Gredos, J. de and Barbáchano, J. M. de. *Hacia el divorcio en Espana.* (Madrid: Garcia Rico. 1931. Pp. 95. 2.50 ptas.)

HIMES, N. E. *The truth about birth control, with a bibliography of birth-control literature.* Pamph. no. 4. (New York: John Day. 1931. Pp. 28. 25c.)

HO, F. L. *Population movement to the northeastern frontier in China.* Paper prepared for the Fourth Biennial Conference of the Institute of Pacific Relations held in Hangchow, October 21—November 4, 1931. (Shanghai: China Inst. of Pacific Relations. 1931. Pp. 51.)

JANSON, F. E. *The background of Swedish immigration, 1840-1930.* (Chicago: Univ. of Chicago Press. 1931. Pp. xi, 517.)

KUCZYNSKI, R. R. *The balance of births and deaths.* Vol. II. *Eastern and southern Europe.* (Washington: Brookings Institution. 1931. Pp. xii, 170. $2.)

LEWIS, E. E. *The mobility of the negro: a study in the American labor supply.* (New York: Columbia Univ. Press. 1931. Pp. 144. $2.25.)

A statistical and mathematical analysis "to throw light upon the relative importance of the industrial and agricultural factors in the movement of the negro." The final conclusion is that "while the powerful economic forces, which in the past have caused the negro to leave the southern farms and enter the factories and other urban employment, may for the moment be held somewhat in abeyance, the prospect is that in the future negro migration will continue to arise from the differential economic status of city and country life. Fortunately or otherwise, the industrialization of the colored man seems destined to go on. The importance of this fact for the negro is difficult to over-emphasize. The economic salvation of the race, in so far as one may be discerned, lies in an adjustment of its members to the status of industrial wage-earners."

LINFIELD, H. S. *Statistics of Jews, 1931.* (New York: American Jewish Committee, 171 Madison Ave. 1931. Pp. 75. Gratis.)

NAWRATZKI, C. *Bevölkerungsstillstand als Wirtschaftsproblem unter besonderer Berücksichtigung der Landwirtschaft.* Schriften des Reichskuratoriums für Technik in der Landwirtschaft, Heft 16. (Berlin: Beuth-Verlag. 1930. Pp. 151.)

SANDERS, J. *The declining birth rate in Rotterdam: a statistical analysis of the drop in the number of children in 24,664 Rotterdam families during the last 50 years.* (The Hague: Martinus Nijihoff. 1931. Pp. xii, 181. 6 g.)

WINKLER, W. *Statistisches Handbuch der europäischen Nationalitäten.* (Vienna: W. Braumüller. 1931. Rm. 10.)

WORK, M. N., editor. *Negro year book: an annual encyclopedia of the negro, 1931-1932.* (Tuskegee Institute, Ala.: Negro Year Book Pub. Co. 1931. Pp. xiv, 544.)

A market analysis of the population statistics for Great Britain and Ireland. (London: P. S. King. Pp. 45. 2s. 6d.)

New Zealand: report on the vital statistics of the Dominion for the year 1930. (Wellington: Census and Statistics Office. 1931. Pp. xxxii, 208. 5s.)

Population and its distribution: population of the United States by states and principal cities; population, federal individual income tax returns and automobile registrations by counties; retail shopping areas. 5th ed. (New York: Harper. 1931. Pp. ix, 617.)

United States summary: total population for states and counties, for urban and rural areas, and for incorporated places of 1,000 and over. Reprinted from Vol. I, *Fifteenth Census Reports.* (Washington: Supt. Docs. 1931. Pp. 87. 15c.)

Social Problems and Reforms

A Systematic Source Book in Rural Sociology. Vol. I. Edited by Pitirim A. Sorokin, Carle C. Zimmerman and Charles J. Galpin. (Minneapolis: Univ. of Minnesota Press. 1930. Pp. xx, 645.)

To one who has felt a lack of solidity in much of the literature of sociology, the reading of this volume gives genuine pleasure. It exhibits the qualities of objectivity in its approach, freedom from notions of social reform, and the application of thorough-going scholarship—qualities not yet as common in sociological writing as might be desired. The plan of the work as outlined in the preface is most ambitious. The editors state that they are undertaking to produce "a more or less exhaustive survey of the knowledge in the main fields of rural sociology. It is intended to be a complete encyclopedia, a reference work, and a substantial systematic treatise in the field. It aims to give the reader an adequate and up-to-date knowledge of present-day theories in European, Asiatic, and American scientific literature." Should the editors succeed in carrying out their plan in its entirety, this will unquestionably come to be regarded as an epoch-making work.

Volume I begins with a brief treatment of the history of rural sociology. Carefully chosen excerpts and summaries from original sources are presented in chronological and geographical classifications. Comparisons are made between the rural and the urban populations. The volume concludes with descriptions of rural social organization in its ecological and morphological aspects. The wealth of bibliographical material included in every section attests to an amazingly wide knowledge and an indefatigable diligence.

It is perhaps to be expected that a writer should overestimate somewhat the importance of his subject. We may therefore look with leniency upon the disposition of the editors to take the side of the farmers in the ancient rural-urban conflict. It is easily possible, however, to extend one's enthusiasm so far as to give an erroneous impression. Doubtless rural life is older than urban life, and agriculture is admittedly essential to the existence of the human race in any considerable number; but it should not be forgotten that those flowerings of the human mind which have yielded us what we call civilization are largely, if not entirely, the product of urban populations. Unless these facts are brought out in comparisons between rural and urban peoples, misconceptions may arise. Slight criticism may also be made of the unfriendly attitude shown by the editors toward Soviet Russia. Here again it appears that their personal feelings have been allowed to obtrude a little more than the strict tenets of scientific impartiality will permit. It should be emphasized, however, that the imperfections noted are decidedly minor. The reviewer's notice of them

is proof of the excellence of the book; in a work of lesser merit they would have escaped observation altogether.

CARL M. ROSENQUIST

The University of Texas

NEW BOOKS

ACHINSTEIN, A. *New York: report of the state board of housing on the standard of living of 400 families in a model housing project, the Amalgamated Housing Corporation.* (Albany: State House. 1931. Pp. 93.)

BEAGLEHOLE, E. *Property: a study in social psychology.* (London: Allen and Unwin. 1931. Pp. 327. 10s. 6d.)

BRUNDAGE, D. K. *The incidence of illness among wage-earning adults.* Reprinted from the *Journal of Industrial Hygiene,* vol. xii, no. 9. (Boston: Jour. of Ind. Hygiene. 1930. Pp. 63.)

CARPENTER, N. *The sociology of city life.* (New York: Longmans Green. Pp. 521. $3.90.)

CULPIN, M. and SMITH, M. *The nervous temperament.* Rep. no. 61 of the Industrial Health Research Board. (London: H. M. Stationery Office. 1930. Pp. iii, 52. 1s.)

DEVINE, E. T. *Social work.* (New York: Macmillan. $3.)

DIXEY, R. N. *The farmer's business: comparative conditions in part of South Oxfordshire in 1923 and 1929.* (New York: Oxford. 1931. Pp. 27. 35c.)

FREEMAN, R. C. and SOUDER, M. A. *Living expenditures of a selected group of Illinois farm and small-town families (1929-30).* Agric. Exp. Sta. bull. 372. (Urbana: Univ. of Illinois. 1931. Pp. 20.)

FRASER, C. E., editor. *The case method of instruction: a related series of articles.* (New York: McGraw-Hill. 1931. Pp. ix, 165. $2.)

Contains essays, written by members of the staff of the Graduate School of Business Administration at Harvard University, on the use of cases in teaching business, marketing, business statistics, finance, accounting, industrial management, economics and business executives.

GECK, L. H. A. *Die sozialen Arbeitsverhältnisse im Wandel der Zeit: eine geschichtliche Einführung in die Betriebssoziologie.* (Berlin: J. Springer. 1931. Pp. viii, 173.)

GROVES, E. R. *Personality and social adjustment.* New ed., rev. (New York: Longmans Green. 1931. Pp. xi, 353.)

GUNTHER, K. *Prohibition in its true emplacement.* (New York: Walter Neale. 1931. Pp. 236. $2.)

HAGERTY, J. E. *The training of social workers.* (New York: McGraw-Hill. 1931. Pp. 205. $2.50.)

HANSEN, A. H. *Economic stabilization in an unbalanced world.* (New York: Harcourt Brace. 1932. Pp. ix, 384. $3.)

HART, H. N. *The technique of social progress.* (New York: Holt. 1931. Pp. xv, 708.)

KELLER, A. G. *Societal evolution: a study of the evolutionary basis of the science of society.* (New York: Macmillan. 1931. Pp. ix, 419. $2.50.)

KING, W. P., editor. *Social progress and Christian ideals.* (Nashville, Tenn.: Cokesbury Press. 1931. Pp. 360. $2.25.)

LICHTENBERGER, J. P. *Divorce: a social interpretation.* (New York: McGraw-Hill. 1931. Pp. xii, 472. $4.)

Lorwin, L. L. ***The problem of international planning.*** (Washington: Brookings Institution. 1931. Pp. 43.)

Dr. Lorwin presented this paper before Section 3 of the World Social Economic Congress, held at The Hague in August, 1931.

Sanderson, D. *The rural community: the natural history of a sociological group.* (Boston: Ginn. 1932. Pp. ix, 723. $4.40.)

Sherrington, C. E. R. *Government interference with the free play of economic forces.* (Fitchburg, Mass.: Alvan T. Simonds. 1931. Pp. 47. $1.)

Towne, E. T. *Social problems.* 3rd. rev. ed. (New York: Macmillan. 1931. Pp. 512. $1.68.)

Wagel, S. R. *World economic depression: remedies.* (New York: A. Hill. 1931. Pp. 152.)

Walker, L. C. *Distributed leisure: an approach to the problem of overproduction and underemployment.* (New York: Century. 1931. Pp. ix, 246. $2.25.)

Weaver, W. W. *West Philadelphia: a study of natural social areas.* A thesis. (Philadelphia: Univ. of Pennsylvania. 1930. Pp. 169.)

Whitten, R. and Adams, T. *Neighborhoods of small homes: economic density of low-cost housing in America and England.* Harvard city planning stud. 3. (Cambridge: Harvard Univ. Press. 1931. Pp. xvi, 205. $3.50.)

Williamson, M. A. *The social worker in child care and protection.* (New York: Harper. 1931. Pp. vii, 485.)

Wood, E. E. *Recent trends in American housing.* (New York: Macmillan. 1931. Pp. ix, 317. $3.)

Contains chapters on war housing, housing shortage, rent restriction, tax exemption, dwelling laws, zoning, city planning, satellite garden cities, coöperative housing, housing loans, housing by public authorities, slum clearance, and a bibliography of 8 pages.

Wuorinen, J. H. *The prohibition experiment in Finland.* (New York: Columbia Univ. Press. 1931. Pp. x, 251. $3.50.)

Budgets in a community chest: methods of organization and procedure, with suggested forms for local use. A chapter from a forthcoming handbook on the administration of community chests and councils. (New York: Assoc. of Community Chests and Councils. 1931. Pp. 44.)

Community trusts in the United States and Canada: a survey of existing trusts, with suggestions for organizing and developing new foundations. (New York: American Bankers Assoc., Trust Co. Div. 1931. Pp. 68.)

Handbook of reference centres for international affairs. (Paris: Internat. Inst. of Intellectual Co-op., League of Nations. 1931. Pp. 164. $1.)

"The purpose is to help the student of international affairs to discover and obtain access to the most suitable foreign sources of information on international political, economic, social and legal problems. It has been compiled by the International Institute of Intellectual Co-operation upon the basis of information supplied directly either by the "reference centres" themselves or by the various National Co-ordinating Committees of Institutions for the Scientific Study of International Relations.

"The *Handbook* gives in respect of each Reference Centre a brief description of its object, organisation and activities, together with the names of its officers, its date of foundation and a few bibliographical details of its principal publications."

A study of employment and unemployment among a selected group of

business and professional women in New York City, made for the President's Emergency Committee for Employment.

The woman power of the nation. Part 1. (New York: National Civic Fed., Woman's Dept. Pp. 24. 25c.)

Factors in the movements of American women to meet changing conditions in the economic, social and civic life of the nation.

Insurance and Pensions

NEW BOOKS

Buechner, F. R. *Municipal self-insurance of workmen's compensation.* Stud. in municipal manag., no. 1. (Chicago: Univ. of Chicago Press. 1931. Pp. 87. $1.50.)

Buehler, E. C., compiler. *Compulsory unemployment insurance.* Ref. shelf, vol. vii, no. 6. (New York: Wilson. 1931. Pp. 295. 90c.)

Galbrun, H. *Théorie mathématique des assurances.* (Paris: A. Colin. 1931. Pp. 203.)

Pressman, M. J. *Workmen's compensation cases in Maryland.* Suppl. 1. (Baltimore: Curlander. 1931. Pp. xiii, 71.)

Rankin, E. R., compiler. *Compulsory unemployment insurance.* (Chapel Hill: Univ. of North Carolina Press. 1931. Pp. 91. 50c.)

Spates, T. G. and Rabinovitch, G. S. *Unemployment insurance in Switzerland: the Ghent system nationalized with compulsory features.* (New York: Industrial Relations Counselors. 1931. Pp. xii, 276. $3.)

This is the third volume in a series dealing with unemployment insurance, and it describes the manner in which a small, but highly industrialized, nation with a federal form of government has dealt, and is dealing, with the problem of unemployment. The material appears to be well organized and presented.

As recently as 1924 the principle of compulsory federal insurance was specifically rejected, but the unemployment insurance law of that year made permanent provision for the development of insurance throughout the nation in response to local conditions. The method used is that of federal subsidies to voluntary insurance funds, public or private, on condition that certain specifications are met. With this federal encouragement there were, by the end of 1930, 9 cantons, or states, with 20 per cent of the population which had compulsory insurance; 14 with 79 per cent had optional systems providing for subsidies; while only 2 with 1 per cent had no insurance provision. Some cantons have given municipalities authority to inaugurate compulsory systems. It is estimated that about half of the total insured population is under some type of compulsory plan.

The federal subsidy is 30 per cent of the benefits paid under trade-union plans, 40 per cent for either public or joint employer-employee plans. To obtain such subsidies the maximum benefits for totally unemployed cannot exceed between 50 and 60 per cent of normal earnings, with the duration of payments being 90 days in any year except during depressions. The partially unemployed cannot have a total income, including benefits, of more than between 70 and 80 per cent of their normal full time earnings. Within these limits the individual funds may determine their own benefits. Where cantonal or municipal subsidies are given, there must be collected from the insured at least 30 per cent of the benefits paid. The federal scheme does not make employer contributions compulsory, but some of the canton plans do.

Closely integrated with the insurance plans are employment exchanges, provision for training the unemployed, financing construction work in order to give employment and extending aid to depressed industries in order that they may operate.

H. LaRue Frain

The Association of Life Insurance Presidents: proceedings of the twenty-fifth annual convention held in New York, December 10 and 11, 1931. (New York: Assoc. of Life Insur. Presidents. 1931. Pp. 278.)

Invalidity, old-age and widows' and orphans' insurance. 16th sess., 2nd item on the agenda. (Geneva: International Labour Office. 1932. Pp. viii, 312.)

Unemployment benefits and insurance. (New York: National Industrial Conference Board. 1931. Pp. x, 127. $2.)

Pauperism, Charities, and Relief Measures

NEW BOOKS

Anthony, A. W., editor. *Philanthropy for the future: a long-range look at economic policies in the field of charity. Papers presented at the fourth conference on financial and fiduciary matters.* Wise pub. giving ser., no. 36. (New York: Federal Council of Churches of Christ in America. Pp. 148. $1.50.)

Fryberger, H. E. *The abolition of poverty.* (New York: Advance Pub. Co. 1931. Pp. 152. $1.50.)

Johnson, A. *Public policy and private charities: a study of legislation in the United States and of administration in Illinois.* Soc. serv. mon., no. 16. (Chicago: Univ. of Chicago Press. 1931. Pp. 244. $3.)

Proceedings of the National Conference of Social Work (formerly National Conference of Charities and Correction), at the 58th annual session held in Minneapolis, Minnesota, June 14-20, 1931. (Chicago: Univ. of Chicago Press. 1931. Pp. 712. $3.)

Socialism and Co-operative Enterprises

NEW BOOKS

Bauer, O. *Kapitalismus und Sozialismus nach dem Weltkrieg.* (Vienna: Wiener Volksbuchhandlung. 1931. Pp. 226.)

Bergua, J. B. *Los credos libertadores: socialismo, colectivismo, sindicalismo, comunismo.* (Avila: Garcia Rico. 1931. Pp. 137. 2.50 ptas.)

Chapple, J. B. *La Follette socialism: how it affects your job, your savings, your insurance policy, your rights, and your future.* (Ashland, Wis., Author. 1931. Pp. 160. $1.)

Cofer, D. B. *Saint-Simonism in the radicalism of Thomas Carlyle.* (College Station, Texas: English Pub. Co. 1931. Pp. 68. $1.)

Gurian, W. *Der Bolschewismus: Einführung in Geschichte und Lehre.* (St. Louis: Herder Book Co. 1931. Pp. xi, 337. $2.25.)

Holland, G. A. *Coöperative intertrading.* (Manchester, England: Coöperative Union. Pp. 32. 4d.)

Roper, W. C., Jr. *The problem of pricing in a socialist state.* (Cambridge: Harvard Univ. Press. 1931. Pp. 71.)

Talmaki, S. S. *Coöperation in India and abroad.* (Mangalore: Basel Mission Press. 1931. Pp. xvii, 502. 6s.)

Walter, G. *Histoire du communisme. I. Les origines: judaïques, chrétiennes, grecques, latines.* (Paris: Payot. 1931. Pp. 623.)

Statistics and Its Methods

Methods of Correlation Analysis. By MORDECAI EZEKIEL. (New York: Wiley. 1930. Pp. xiv, 427. $4.50.)

This book contains a minimum of mathematical manipulation and derivation, and will therefore be of special interest to non-mathematical readers. However, the incorporation of methods largely developed by the author and his former colleagues at the United States Department of Agriculture and previously available only in technical journals or not at all will insure more general interest. Approximately the first hundred pages are taken up with the definition and illustrative calculation of some elementary statistical coefficients—with particular emphasis on the standard error of estimate to measure the reliability of statistical samples and results—and examples of mathematical curve-fitting to two-variable problems. The expression of a curvilinear relation by a free-hand curve is also discussed. The treatment up to this point is of necessity quite brief.

The larger part of the analysis is concerned with the development, chiefly by the solution of illustrative problems, of simple and multiple correlation coefficients and indexes and regression curves. Quite properly the emphasis is placed on regression equations. The standard error of estimate with adjustment for small samples by the methods of R. A. Fisher and "Student" is calculated extensively. The newer methods included are (1) the application of the Doolittle method to the solution of the symmetrical normal equations occurring in multiple correlation, (2) the development of approximate methods, largely graphic and free-hand, for determining curvilinear multiple correlation, and (3) the recognition and measurement of "joint" correlation in which the combined effect of any given change in two or more independent variables, as mathematically defined by a joint functional relation, on the dependent variable is measured.

The author's descriptions of the nature of the statistical coefficients are in the main admirable, and the problem method of presentation is employed with unusual skill. The discussion of free-hand curves for curvilinear relations, a method largely developed by Dr. Ezekiel and used in the latter part of the text as a basis for a short-cut determination of curvilinear multiple correlation, shows a freedom from rigid statistical formalism.

However, the very perfection of this book in the tradition of this kind of work raises fundamental issues of special importance to economists, generally without adequate training in mathematics. Can anyone unable to follow through mathematical derivations, be sufficiently aware of limitations in the application of the methods and give the proper interpreta-

tion of results? For example, r^2, the coefficient of determination, never greater than *1*, is stated as measuring the per cent "variance" in the dependent variable directly due to the independent variable. The exact meaning of this coefficient is difficult to grasp in any case, and a summary verbal description is bound to prove inadequate. The statistical-mathematical formalism of the minimum requirement of a number of independent observations in excess of the number of variables entering into problems of multiple regression equations and correlation is likely to be mistaken for statistical adequacy. Standard errors, measuring the reliability of calculated coefficients for samples out of fairly "normal" distributions, may become meaningless for other kinds of clusters.

It is unfortunate that no fundamental and explicit discussion of the kind of observation data to which the correlation methods are appropriate is given. Furthermore, in the reviewer's opinion, Dr. Ezekiel has in practically all cases employed samples much too small for significant results in the ordinary case. The introduction of adjustments for *very* small samples does not meet the objection. The small size of samples seems to point to a too optimistic view as to possibilities in correlation analysis. As useful mathematical devices which can go much further than visualization of empirical covariation, regression equations and correlation coefficients have much to commend them, even for economic time series. However, orthodox correlation analysis seems inseparably tied up with the frequency distribution theory of probabilities, "prediction" equations, and similar deductions. The very distinction between variables as independent and dependent, a distinction not inherent in the general mathematical expression of functional relations, opens the door to a fallacious kind of reasoning as to causality, which only experimental control and theoretical connection can properly supply.

It is doubtful whether in the present state of correlation analysis a general textbook can do much good. There are pitfalls even for the mathematically trained, as evidenced by the recent tendency to qualify further the use of multiple correlation methods. In a recent article Frisch and Mudgett conclude that, "Looking back on the various cases discussed it is clear that the trouble always comes in those cases where *there exists* (rigorously or approximately) *a linear dependency between those variables that are written in the right member of the orthodox regression equation,* that is, between those variables that are considered as independent in the least-square fitting procedure."[1]

Furthermore, when regression equations derived from a large number of independent variables "are applied to subsequent sets of data, there is apt to be a rather large shrinkage in the resulting correlation coefficient

[1] Frisch and Mudgett, "Statistical Correlation and the Theory of Cluster Types," *Journal of the American Statistical Association*, December, 1931, p. 388.

obtained, as compared with the original observed multiple correlation coefficient."[2] Dr. Ezekiel is fully aware of such restrictions, having contributed largely to their development; but it is too much to expect that the average user of correlation methods for whom this book is intended will be as critically cognizant of these limitations.

Limitations to the use of correlation methods are particularly important in the analysis of economic time series, where the restrictive qualifications appear quite generally to apply. The difficulties introduced by the interdependence of the "right hand" variables are particularly pertinent in the light of recent numerous attempts to apply multiple correlation methods to the measurement of supply and demand. Our theoretical economic structure is predicted on the *interdependence* of *all* the constituent elements. Here, as elsewhere, it is futile to assume conditions that probably do not hold, in the hope of furthering quantitative analysis, which might proceed much more rapidly if freed of this encumbrance. In this connection it is also well to remember the decreasing reliability of correlation results with an increasing number of variables.[3] Very often little is gained by going beyond simple correlation.

Dr. Ezekiel's approach to correlation for economic time series is cautious. "The methods of this chapter apply only when the correlations are determined from samples so selected as to comply with all the assumptions of simple sampling. Where the samples are selected by other methods, the results may be of greater or of less reliability than if random sampling had been employed. Furthermore, in many types of problems, such as in time series, the observations can hardly be regarded as samples drawn from a universe. In such cases, statistical measures of reliability have but little meaning."[4] At another point he states: "The problem of prices, though, is of an entirely different character, for there only a single observation can be drawn for any given length of period, and the next period is essentially in a different universe."[5] In the reviewer's opinion the consequences of this viewpoint have not been sufficiently deduced, in one or two of the problems used for illustrative purposes, and in chapter 22 on "Types of problems to which correlation analysis has been applied." Perhaps the least convincing application of multiple correlation analysis in the text is to be found on page 236 *et seq.*, where the author illustrates the calculation of the short-cut method of determining regression curves for an index of cotton consumption, crop-year price of cotton, and an index of general industrial activity, 1919 to 1928. And although the

[2] R. J. Wherry, "A New Formula for Predicting the Shrinkage of the Coefficient of Multiple Correlations," *The Annals of Mathematical Statistics*, vol. ii, no. 4, p. 440.

[3] See Dr. Ezekiel's, "Moore's Synthetic Economics," *Quarterly Journal of Economics*, vol. xliv, no. 4 (August 1930), p. 676.

[4] *Methods of Correlation Analysis*, p. 264.

[5] *Ibid.*, p. 325.

writer of a general text cannot be expected to evaluate thoroughly research applications and results, the approval implied in a straight description of the work in the application of multiple correlation technique has its dangers for uncritical readers.

The appropriateness of correlation analysis for time series requires a fundamental consideration of the nature of economic events or observations, of logical propositions referring to them, and of the connection between these two. This theoretical examination must not be limited to, or even start with, the probability theory underlying the derivation of correlation coefficients. Surely economic events are not always, if in the majority of cases so far as our possible knowledge goes, a matter of "universe," including discrete and relatively uniform members subject to many independent errors. The technique of quantitative analysis in economics must in many cases be adapted to evolutionary, irreversible, interdependent complexes. Uniformities and recurrences must be theoretically deduced, or proved very likely, before methods based on such assumptions can be properly employed. Here a healthy scepticism is not to be confused with defeatism. Up to the present in economics we have found no general experimental or statistical control. Theoretical relevance of factors and relations is still more important than empirical connection in quantitative procedure in economics. It does not suffice for Dr. Ezekial to state: "Even so, however, there is enough continuity to the way that individual persons react in the aggregate, and enough similarity between successive years, so that fairly stable results can sometimes be secured, and where the change in reaction is continuous and progressive, that change itself be made one variable in the analysis."[6] So far this has generally meant assuming continuity and progressiveness by fits of empirical curves.

As a description of methods within the bounds of the conventional correlation analysis, Dr. Ezekiel's book would be hard to improve. The issue, however, is much more important than the question of the excellence of a single book. It seems to the reviewer that the validity of a whole procedure is involved.

A. G. Silverman

National Bureau of
Economic Research

NEW BOOKS

Brown, T. H. *Problems in business statistics.* (New York: McGraw-Hill. 1931. Pp. xv, 500. $5.)

This is one of the "Harvard problem books." The author states in the preface that the purpose of the book is "to meet part of the *why* of business statistics," admitting wisely that while the method of statistics is now

[6] In Dr. Ezekiel's book this sentence follows the one last quoted above (p. 235).

sufficiently advanced "to provide a base for the solution of many business problems," the development of statistical method is nevertheless "incomplete and still subject to considerable changes." The major divisions are as follows: "Statistical summaries," "Data for business problems," "Distribution summaries," "General business and industrial summaries," "Manufacturing summaries," "Merchandising summaries" and "Financial summaries."

Under these general headings, a large number of case problems are presented, including data of actual operation of certain enterprises. In most cases the name of the company is given, although in a few cases the true name of the company is withheld.

The problems are well selected and an extraordinary amount of industry and acumen is displayed in the brief and usually clear presentation of the principal factors involved. Some of the problems, of course, are better than others, and a few seem to serve merely as fillers, although undoubtedly the author has some definite purpose for including them. With proper use and interpretation by the teacher this problem book is one which would serve admirably its purpose; and Professor Brown indicates that it has served well in their teaching program at the Harvard Graduate School of Business.

The answers required to many of the problems are not obvious and many of them are quite difficult. There is much valuable material here for the teacher of statistics, even of a general course in statistics, because of the realism made available by the use of actual cases, but it is predicted that Professor Brown will be answering numerous letters inquiring as to the specific solutions involved in a large proportion of these problems, and what are the correct answers to many of the questions given at the end of each problem—letters not from students, but from teachers of business statistics. The book needs a brief supplement of instructions as to how to teach it.

JAMES G. SMITH

HOLZINGER, K. J. *Statistical tables for students in education and psychology.* 3rd ed. (Chicago: Univ. of Chicago Press. 1931. Pp. vii, 100.)

MARSCHAK, J. *Elastizität der Nachfrage. Zur empirischen Feststellung relativer Marktkonstanten durch Beobachtung von Haushalt, Betrieb und Markt.* (Tübingen: Mohr. 1931. Pp. 143.)

WOODS, H. M. and RUSSELL, W. T. *An introduction to medical statistics.* (London: P. S. King. 1931. Pp. x, 125. 7s. 6d.)

A demonstration of ratio analysis. Bull. no. 40. (Urbana: Univ. of Illinois Bureau of Business Research. 1931. Pp. 52.)

The Dow, Jones averages, with an explanation of the Dow theory: the Barron's averages. 3rd. ed. (New York: Barron's. 1931. Pp. 128.)

Konjunkturlehre: eine Grundlegung zur Lehre vom Rhythmus der Wirtschaft. (Berlin: Reimar Hobbing. Pp. 300. RM. 12.)

DOCUMENTS, REPORTS, AND LEGISLATION

Industries and Commerce

In the series of Trade Information Bulletins published by the Department of Commerce have appeared: No. 776, *The Argentine Iron and Steel Industry and Trade,* by C. H. Ducoté (pp. 38, 10c.); No. 777, *The Industrial Machinery Market in Yugoslavia,* E. A. Kekich (pp. 16, 10c.); No. 778, *Merchandising Problems of Radio Retailers in 1930* (pp. 23, 10c.); No. 779, *International Trade in Fish Meal,* compiled by G. J. Carr (pp. 18, 10c.); No. 780, *Chemical Industries and Trade of Norway and Denmark,* by W. T. Daugherty (pp. 32, 10c.); No. 781, *French Chemical Industry and Trade in 1930,* by E. C. Taylor (pp. 25, 10c.); No. 782, *Market for Paper and Paper Products in Cuba,* by W. B. Murray (pp. 18, 10c.); No. 783, *Commercial and Industrial Development of Venezuela,* by C. J. Dean (pp. 55, 10c.); No. 784, *Petroleum Refineries in Foreign Countries, 1931* (pp. 44, 10c.); No. 785, *Porto Rico: What It Produces and What It Buys,* by Darwin DeGolia (pp. 61, 10c.).

In the Trade Promotion Series have been published: No. 125, *Cocoa in the Ivory Coast,* by L. J. Schwarz (pp. 36, 15c.); No. 126, *Fuel and Power in Latin America,* by J. R. Bradley (pp. 130, 25c.).

The United States Tariff Commission has issued in mimeographed sheets its report concerning the cost of production of copper, pursuant to the provisions of Senate Resolution 434 of the 71st Congress (December 22, 1931, pp. 38). On the same date it made its report with respect to costs of crude petroleum and refined products (pp. xxviii).

From the Committee on Public Relations (143 Liberty Street, New York) have been received pamphlets relating to increases in freight rates and charges brought before the Interstate Commerce Commission: *Statement and Application of the Steam Railroad Carriers of the United States* (June 16, 1931, pp. 20); *Answer of Petitioners to Order of the Commission of June 19, 1931* (June 24, 1931, pp. 6); *General Brief on behalf of Carriers* (September 16, 1931, pp. 108); *Petition of the Association of Railway Executives Presenting Proposal of a Plan Pursuant to Suggestion of the Commission in Its Report in This Proceeding* (November 19, 1931, pp. 44).

Relating to this same case is also the statement of Dr. Julius H. Parmelee before the Interstate Commerce Commission at Chicago, September 5, 1931 (Washington, Bureau of Railway Economics, pp. 10); and *Statistical Exhibits Filed on behalf of the Carriers* (Bureau of Railway Economics, July, 1931).

The Eleventh Annual Report of the Federal Power Commission for 1931 contains minutes of the Commission's meetings, pages 53-174 (Washington, pp. 282).

Bulletin No. 127 of the Public Service Commission of West Virginia relates to the investigation of rates for furnishing natural gas by the United Fuel Gas Company (Charleston, pp. 147).

Labor

The federal Bureau of Labor Statistics has issued the following bulletins:

No. 540, *Union Scales of Wages and Hours of Labor, May 15, 1930* (October, 1931, pp. 324, 50c.).

No. 547, *Wages and Hours of Labor in Cane-Sugar Refining Industry, 1930* (December, 1931, pp. 27, 10c.).

No. 549, *Labor Legislation of Venezuela* (October, 1931, pp. 19, 10c.).

No. 552, *Labor Legislation, 1930* (October, 1931, pp. 59, 15c.).

No. 558, *Labor Conditions of Women and Children in Japan*, by Asa Matsuoka (November, 1931, pp. 102, 20c.).

No. 559, *Labor Legislation of Ecuador* (November, 1931, pp. 36, 10c.).

Bulletin No. 89 issued by the Women's Bureau of the federal Department of Labor relates to *The Industrial Experience of Women Workers at the Summer Schools, 1928 to 1930* (pp. 60, 20c.).

The preliminary report of the Special Commission of the Commonwealth of Massachusetts on the Stabilization of Employment is printed under date of December, 1931 (Boston, pp. 168).

Special Bulletin No. 171 of the New York Department of Labor is entitled *Course of Factory Employment in New York State from 1921 to 1930* (Albany, pp. 177).

This bureau has also compiled *Miscellaneous Labor Laws, with Amendments, Additions and Annotations to November 1, 1931* (pp. 210).

Public Finance

The Report of the Executive Committee to the Governor's Tax Conference (Illinois) and adopted by the Conference, 1931, has been printed as a pamphlet (Chicago, 604-35 North Dearborn Street, pp. 45).

A special report of the New York State Tax Commission, No. 4, relates to *Luxury Taxation and Its Place in a System of Public Revenues*, prepared by Ralph Burnett Tower (Albany, 1931, pp. 235). In the appendix is a four-page bibliography.

The Wisconsin Tax Commission has published a *Manual for Supervisors of Assessments, Field Statistician and Property Tax Employees of Central Office* (Madison, 1931, pp. 178). This contains chapters on the historical background of local assessments, rules for supervising assessors, and a brief outline of former methods used for building state, county and taxation-district values.

NOTES

The Executive Committee of the AMERICAN ECONOMIC ASSOCIATION requests that suggestions relating to the program of the next annual meeting should be sent by May 1 to the president, Professor George E. Barnett, Johns Hopkins University, Baltimore, Maryland. It is particularly desired that the Program Committee should receive information with regard to new investigations or studies which would be of general interest to the membership of the Association.

The following persons have been chosen members of the Nominating Committee for the year 1932: Professor Edwin W. Kemmerer, Princeton University, chairman; Professor John M. Clark, Columbia University; Professor Morris A. Copeland, University of Michigan; Professor I. Lippincott, Washington University; Professor Maurice H. Robinson, University of Illinois; Professor Harry R. Tosdal, Graduate School of Business Administration, Harvard University.

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since November 1:

Armbruster, A. H., 4283 Dakota St., Pittsburgh, Pa.
Aspinwall, L. V., University of Colorado, Boulder, Colo.
Atsalas, T. P., 29 Marble Hill Ave., New York City.
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Ayres, E., Washington Sq. Coll., New York University, New York City.
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Barnes, G. H., Ohio Wesleyan University, Delaware, Ohio.
Bartlett, R. W., 219 N. Agricultural Bldg., Urbana, Ill.
Bastine, J. F., 500 Riverside Drive, New York City.
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Carey, L. J., State Teachers College, Superior, Wis.
Carlson, K. E., American University, Washington, D.C.
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At a meeting of the Insurance Round Table held in Washington during the holidays, the following resolution was adopted:

Whereas, the teaching of insurance in colleges and universities has become a highly specialized and technical branch of economics, with many resulting problems; and,

Whereas, it is deemed advisable to bring about an organization as a means of exchanging ideas, conducting research and becoming acquainted with those teachers with similar interests and problems; and,

Whereas, it is the desire and wish of the teachers of insurance here assembled in round table discussion to organize a National Association of Teachers of Insurance;

Be it hereby resolved, that the chairman of this Round Table, Dr. S. S. Huebner, be hereby empowered to appoint three men to constitute themselves an organization committee to study the situation and prepare the necessary instruments to effect a simplified form of organization, to be presented for ratification and adoption at the next annual meeting.

The American Statistical Association at its meeting on November 24 discussed "Financial Liquidation and Recovery." Among the speakers were: John E. Rovensky, "Some of the Proposed Changes in Our Financial Machinery"; Warren M. Persons, "Economic Significance of Deflation"; Robert B. Warren, "After the Gold Exchange Standard, What?"; Alexander Sachs, "The Rôle and Responsibility of Academic Delusion in the Depression"; Dwight C. Rose, "Common Stocks at the Current Price Level."

The subject at the meeting held January 29 was "What Statistics Contribute to Public Health." The speakers were: Louis I. Dublin, "The Depression and Health Rates"; Mary V. Dempsey, "Occupational Mortality Statistics"; Emma A. Winslow, "Trends in Child Dependency Relief"; George T. Palmer, "Measuring the Health of School Children."

The College of Liberal Arts of Northwestern University announces a seminar in social science research in Paris under the auspices of the University of Paris, June 15 to July 31, 1932. This is open only to graduate students having a reading knowledge of French. Registration fee is $5; tuition fee is $25. For further information write to Professor William Jaffé, director of the seminar, Northwestern University, Evanston, Illinois until June 1; after June 14 the European address is in care of American University Union, 173 Boulevard St. Germain, Paris VI^e, France.

The tenth annual Pacific Coast Economic Conference was held at Oregon State College, Corvallis, Oregon, December 29-30, 1931. Among those pre-

senting papers were: R. B. Heflebower, State College of Washington, "Use of Statistics in Verifying and Clarifying Economic Concepts"; Reid L. McClung, University of Southern California, "Curricula Tendencies in Schools of Commerce"; Norman J. Silberling, Silberling Research Corporation, "The World Depression—a Challenge to Economists"; S. J. Coon, University of Washington, "Socialistic Trends in Modern Capitalism"; William E. Leonard, Whitman College, "Public Works as a Resource for Unemployment."

Professor S. J. Coon was elected president of the Association for 1932. The meeting for this year will be held at Stanford University.

Dr. Charles A. Ellwood, professor of sociology in Duke University, was elected president of the National Social Science Honor Society, Pi Gamma Mu, at the national convention held in New Orleans, December 28-31, 1931.

The ninth institute of the Norman Waite Harris Memorial Foundation of the University of Chicago was held January 27-31, 1932. Public lectures were delivered by Professor Jacob Viner on "The Balance of International Payments and the Gold Standard"; H. Parker Willis on "Federal Reserve Policy in the Depression"; Gottfried Haberler on "Gold and the Business Cycle"; Lionel D. Edie on "The Future of the Gold Standard."

The Mediaeval Academy of America has recently published selections from the Italian series of the *Glossary of Mediaeval Terms of Business* which is being compiled for the Academy by Dr. Florence Edler. These selections have been issued in preliminary form for distribution among scholars in the hope of obtaining helpful criticism. A limited supply is available to be sent free of charge to interested scholars and may be obtained from The Mediaeval Academy of America, Cambridge, Massachusetts.

An error was made in the December Review in quoting the price of *Soviet Planned Economic Order,* published by the World Peace Foundation, 40 Mt. Vernon St., Boston. The correct price is $2.50 instead of $2.00.

The Babson Statistical Organization has adopted the logarithmic scale for the presentation of its Babsonchart of the Physical Volume of Business. Inasmuch as the Babsonchart is constructed with the component items weighted on the basis of value added by the activities which they represent, and the index numbers charted without adjustment for trend, it has been found desirable, due to the unusually long period covered by the monthly indices, to change from the arithmetic scale in order that periods of prosperity and depression may be shown in their proper relative importance in the early years. As tests which have been made indicate that the Babsonchart can now be said to represent the nation's industrial and commercial income in terms of goods, it is important to note that, despite the estimated normal growth of the United States in the last ten years amounting to approximately 31 per cent, the low point of the present depression to date is only 18 per cent above the low of the 1921 depression.

The following notes concerning the Brookings Institution have been received:

The Brookings Institution, at the request of the Alabama legislature, has undertaken a survey of state government and finances. A full report on the revenue and taxation system and the financial administration of the state and

counties will be made, together with recommendations for changes in the interest of economy and efficiency.

Dr. Isador Lubin of the Institute of Economics has been serving as economic adviser to a subcommittee of the United States Senate Committee on Manufactures in connection with the Hearings on S. 6215—A Bill to Establish a National Economic Council.

Paul M. Warburg died in New York City on January 24.

Appointments and Resignations

Dr. R. S. Atwood, acting director of the Institute of Inter-American Affairs of the University of Florida and associate professor of economic geography, has been granted a leave of absence during the second semester to study the geological and geographical aspects of the Maya civilization in Guatemala. His study is under the auspices of the Carnegie Institution of Washington.

Professor W. C. Cleveland of the University of Indiana is a teaching assistant this year at the University of Chicago.

Dr. C. A. Curtis of Queen's University has been appointed visiting professor of finance at the University of Florida during the leave of absence of H. B. Dolbeare.

Associate Professor H. B. Dolbeare of the College of Commerce and Journalism at the University of Florida has been granted a leave of absence for the second semester to complete his study of the development of banking in Florida.

Raymond T. Gifford of Lee Higginson Company of Boston will offer a course on problems of present day finance for advanced students at Clark University during the second semester.

Associate Professor Homer E. Gregory of the College of Business Administration, University of Washington, has resumed his duties after a year's leave of absence on account of illness.

Edmond E. Lincoln has joined the staff of the E. I. du Pont de Nemours and Company as economist.

Dr. Leverett S. Lyon of the Institute of Economics has been elected president of the National Association of Teachers of Marketing and Advertising for the coming year.

Associate Professor Howard H. Martin of the College of Business Administration, University of Washington, is on a year's leave of absence for the purpose of gathering new material for his course in industrial geography of Europe.

Professor James W. Martin, director of the University of Kentucky Bureau of Business Research, has recently served as adviser to the South Carolina motor transportation investigating committee authorized by the last session of the legislature.

Glenn N. Merry has resigned as sales operating manager of the Nashua Gummed and Coated Paper Company to become vice-president and general manager of the Howe Coal Companies, a chain of retail coal yards in New York.

Charles E. Persons is temporarily employed with the New York State Joint Legislative Committee on Unemployment, having resigned from his position with the Shoe Workers' Protective Union in Haverhill, Massachusetts.

Dr. Clyde William Phelps is on leave of absence during the year 1931-32 from his position as head of the department of economics in the University of Chattanooga to serve as economist on the Federal Trade Commission's Chain Store Inquiry.

M. O. Ross, professor of economics at Earlham College, Richmond, Indiana, is now dean of the college.

Louis Bernard Schmidt of the Iowa State College of Agriculture and Mechanic Arts will return to the University of Alabama for the first term of the summer school of 1932 to give courses in American history and international relations.

Harry L. Severson is teaching money and banking at the University of Indiana with the rank of acting assistant professor of economics, during the absence of Assistant Professor Cleveland.